

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

(Securities Code: 4768)

March 8, 2024

To Our Shareholders:

Yuji Otsuka,
President & Chief Executive
Officer
**OTSUKA
CORPORATION**
2-18-4 Iidabashi, Chiyoda-ku,
Tokyo

NOTICE OF THE 63RD ANNUAL GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 63rd Annual General Meeting of Shareholders of OTSUKA CORPORATION (the “Company”), which will be held as indicated below.

In convening the General Meeting of Shareholders, the Company has taken measures to provide electronically the information that is the content of the Reference Documents for the General Meeting of Shareholders, etc. (the matters to be electronically provided) and posted such information on the Company’s website on the internet. You are kindly requested to access the following website to review the information.

The Company’s website: <https://www.otsuka-shokai.co.jp>

(Please access the above website to select from the menu “About OTSUKA CORPORATION,” “Corporate Overview,” “Investor Relations (IR),” “Stock-related Information,” and then “General Meeting of Shareholders” to check the information.)

The matters to be electronically provided are posted on the website of Tokyo Stock Exchange (TSE), in addition to the Company’s website. You are kindly requested to access the following:

Tokyo Stock Exchange’s website (TSE’s Company Announcements Service for listed companies)
<https://www2.jpx.co.jp/tseHpFront/JJK010010Action.do?Show=Show>

(Please access the above website of TSE and enter “OTSUKA CORPORATION” in “Security Name (Company Name)” or the Company’s securities code “4768” in “Code” to search, select “Basic

Information” and then “Documents for public inspection/PR information,” and see the “Convocation notices/documents for shareholder meetings” column under “Documents for public inspection.”)

If you are unable to attend the Meeting, you can exercise your voting rights using any of the following methods. Please review the attached Reference Documents for the General Meeting of Shareholders and **exercise your voting rights by no later than 5:30 p.m. on Tuesday, March 26, 2024 (JST).**

[Voting in writing (by mail)]

Please indicate your approval or disapproval of each proposal on the enclosed voting form, and return it so that your vote is received by the above deadline.

[Voting via the internet, etc.]

Please access the voting website designated by the Company (<https://www.web54.net>) using the voting code and password printed on the enclosed voting form, and enter your approval or disapproval of each proposal following the instructions on your screen by the above deadline.

1. Date and Time: Wednesday, March 27, 2024, at 10 a.m. (JST) (The reception desk will open at 9 a.m.)

2. Venue: **Large Conference Room, 3rd floor, Head Office of the Company**
2-18-4 Iidabashi, Chiyoda-ku, Tokyo

3. Purpose of the Meeting:

Items to be reported:

1. The Business Report and the Consolidated Financial Statements for the 63rd fiscal year (from January 1, 2023 to December 31, 2023), and the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Board
2. The Non-consolidated Financial Statements for the 63rd fiscal year (from January 1, 2023 to December 31, 2023)

Items to be resolved:

Proposal 1: Appropriation of Surplus

Proposal 2: Election of Three Audit & Supervisory Board Members

Proposal 3: Revision of the Amount of Remuneration for Audit & Supervisory Board Members

4. Matters Prescribed for Convocation (Notes for the Exercise of Voting Rights)

- (1) In the event that your approval or disapproval of each proposal is not indicated on the voting form, it shall be considered as an indication of approval.
- (2) When voting rights are exercised via the internet, etc. more than once, the last vote shall be deemed effective.
- (3) When voting rights are exercised in duplicate, both in writing and via the internet, etc., the vote via the internet, etc. shall be deemed effective.
- (4) If you are exercising your voting rights by proxy, you may appoint another shareholder who owns his/her voting rights as proxy to vote on your behalf. Please be advised that, in such a case, it is necessary to submit a document to prove the proxy.
- (5) If you exercise your voting rights in a contradictory manner (voting for and against the same proposal), you are requested to notify the Company of your intention to do so and state the reason for this no later than three days before the Meeting.

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- When you attend the Meeting, you are kindly requested to present the voting form sent together with this convocation notice at the reception.
 - If any changes are made to the matters to be electronically provided, such change will be announced on the Company's website and TSE's website as above on the internet, together with information before and after the changes.
 - We will send this Convocation Notice as a document to shareholders who have requested the delivery of documents. However, among the matters to be electronically provided, the following are not stated in this Convocation Notice in conformance with the relevant laws and regulations as well as Article 15 of the Company's Articles of Incorporation. Note that, for this General Meeting of Shareholders, this convocation notice (documents stating the matters to be electronically provided, excluding the following matters), will be delivered to all shareholders regardless of whether they have made a request for delivery of such documents.
 - (1) "System to Ensure the Properness of Operations and Its Operational Status" in the Business Report
 - (2) "Consolidated Statement of Changes in Equity" and "Notes to the Consolidated Financial Statements" of the Consolidated Financial Statements
 - (3) "Statement of Changes in Equity" and "Notes to the Non-consolidated Financial Statements" of the Non-consolidated Financial Statements

The business report, consolidated financial statements and non-consolidated financial statements attached to such documents are part of the documents audited by the Accounting Auditor when preparing the accounting audit report and the same documents audited by the Audit & Supervisory Board Members in preparing the audit report.

Reference Documents for the General Meeting of Shareholders

Proposal 1: Appropriation of Surplus

The Company proposes the appropriation of surplus as follows:

Year-end Dividends

The Company considers the return of profit to shareholders to be one of the most important management issues and its basic policy is to continually pay stable dividends based on its business performance while considering business foundation enhancement and the soundness of the financial structure.

In accordance with this policy, the Company proposes to pay ¥135 per common share of the Company as year-end dividends for the 63rd fiscal year, an increase of ¥10 compared to the previous fiscal year's ordinary dividend of ¥125, as follows:

(1) Type of dividend property

To be paid in cash.

(2) Allotment of dividend property and aggregate amount thereof

¥135 per common share of the Company

Total dividends: ¥25,596,124,470

(3) Effective date of dividends of surplus

March 28, 2024

Proposal 2: Election of Three Audit & Supervisory Board Members

The terms of office of Audit & Supervisory Board Members Kazuhiko Nakai, Etsuo Hada, and Katsumasa Minagawa will expire at the conclusion of this Meeting. Therefore, the Company proposes the election of three Audit & Supervisory Board Members.

The consent of the Audit & Supervisory Board has been obtained for this proposal.

The candidates for Audit & Supervisory Board Member are as follows:

No.	Name		Current position in the Company	Attendance at Board of Directors meetings (Attendance rate)	Attendance at Audit & Supervisory Board meetings (Attendance rate)	Term as Audit & Supervisory Board Member:
1	Kazuhiko Nakai Male	Outside Independent Reelection	Audit & Supervisory Board Member	19/19 (100%)	17/17 (100%)	12 years
2	Etsuo Hada Male	Outside Independent Reelection	Audit & Supervisory Board Member	19/19 (100%)	17/17 (100%)	8 years
3	Katsumasa Minagawa Male	Outside Independent Reelection	Audit & Supervisory Board Member	18/19 (94%)	17/17 (100%)	4 years

Reelection Candidate for Audit & Supervisory Board Member to be reelected

Outside Candidate for outside Audit & Supervisory Board Member

Independent Independent officer stipulated by the Tokyo Stock Exchange

No.	Name (Date of birth)	Career summary and position in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
1	<p>Kazuhiko Nakai (August 31, 1951)</p> <p>Term as Audit & Supervisory Board Member: 12 years</p> <p>Attendance at Board of Directors meetings 19/19 (100%)</p> <p>Attendance at Audit & Supervisory Board meetings 17/17 (100%)</p> <p>Outside Independent Reelection</p>	<p>Aug. 1976 Joined Chuo Audit Corporation</p> <p>Mar. 1981 Registered as a certified public accountant</p> <p>Nov. 1995 Senior Partner of Chuo Audit Corporation</p> <p>Mar. 2005 Registered as a certified public tax accountant Established Kazuhiko Nakai Tax Accountant Office Director (current position)</p> <p>Jul. 2007 Senior Partner of Ernst & Young ShinNihon (currently Ernst & Young ShinNihon LLC)</p> <p>Jun. 2010 Resigned from Ernst & Young ShinNihon LLC</p> <p>Jul. 2010 Established Kazuhiko Nakai CPA Office Director (current position)</p> <p>Jun. 2011 Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. (current position)</p> <p>Mar. 2012 Outside Audit & Supervisory Board Member of the Company (current position)</p> <p>Feb. 2019 External Director of S-Pool, Inc. (current position)</p> <p>[Significant concurrent positions outside the Company] Director of Kazuhiko Nakai Tax Accountant Office Director of Kazuhiko Nakai CPA Office Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. External Director of S-Pool, Inc.</p>	– shares
<p>Reasons for nomination as candidate for outside Audit & Supervisory Board Member</p> <p>The Company nominated Kazuhiko Nakai for another term as a candidate for outside Audit & Supervisory Board Member because he is deemed capable of appropriately executing duties as an outside Audit & Supervisory Board Member based on the knowledge and experience he possesses as a certified public accountant and a certified public tax accountant, and his long-standing engagement in the practice of corporate accounting.</p> <p>Furthermore, although Mr. Nakai has never in the past been involved in the management of a company except as an outside officer, the Company deems that he is capable of suitably fulfilling his role as an outside Audit & Supervisory Board Member for the aforementioned reasons.</p>			

No.	Name (Date of birth)	Career summary and position in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
2	<p>Etsuo Hada (November 27, 1961)</p> <p>Term as Audit & Supervisory Board Member: 8 years</p> <p>Attendance at Board of Directors meetings 19/19 (100%)</p> <p>Attendance at Audit & Supervisory Board meetings 17/17 (100%)</p> <p>Outside Independent Reelection</p>	<p>Sep. 1987 Joined Chuo Audit Corporation</p> <p>Mar. 1990 Registered as a certified public accountant</p> <p>Aug. 1993 Registered as a judicial scrivener</p> <p>Sep. 1993 Director of Hada CPA and Judicial Scrivener Office (current position)</p> <p>Jun. 1999 Registered as a certified public tax accountant</p> <p>Jun. 2004 Registered as an administrative scrivener</p> <p>Jun. 2004 Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd. (current position)</p> <p>Mar. 2016 Outside Audit & Supervisory Board Member of the Company (current position)</p> <p>[Significant concurrent positions outside the Company]</p> <p>Director of Hada CPA and Judicial Scrivener Office</p> <p>Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd.</p>	<p>– shares</p>
<p>Reasons for nomination as candidate for outside Audit & Supervisory Board Member</p> <p>The Company nominated Etsuo Hada for another term as a candidate for outside Audit & Supervisory Board Member because he is deemed capable of appropriately executing duties as an outside Audit & Supervisory Board Member based on the knowledge and experience he possesses as a certified public accountant, a certified public tax accountant, a judicial scrivener, and an administrative scrivener, and his long-standing engagement in the practice of corporate accounting and corporate legal affairs.</p> <p>Furthermore, although Mr. Hada has never in the past been involved in the management of a company except as an outside officer, the Company deems that he is capable of suitably fulfilling his role as an outside Audit & Supervisory Board Member for the aforementioned reasons.</p>			

No.	Name (Date of birth)	Career summary and position in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
3	Katsumasa Minagawa (July 21, 1971) Term as Audit & Supervisory Board Member: 4 years Attendance at Board of Directors meetings 18/19 (94%) Attendance at Audit & Supervisory Board meetings 17/17 (100%) Outside Independent Reelection	Apr. 1998 Joined Mitsubishi Corporation Dec. 2007 Registered as an attorney at law (Dai-Ichi Tokyo Bar Association) Sep. 2010 Established Minagawa Ebisu Law Office Representative Attorney Jun. 2016 Outside Statutory Auditor of Ubiquitous Corporation (currently Ubiquitous AI Corporation) (current position) Mar. 2020 Assumed office as outside Audit & Supervisory Board Member of the Company (current position) Jan. 2022 Founding Partner, Kollekt Partners Law Office Representative Attorney (current position) [Significant concurrent positions outside the Company] Representative Attorney of Kollekt Partners Law Office Outside Statutory Auditor of Ubiquitous AI Corporation	– shares
<p>Reasons for nomination as candidate for outside Audit & Supervisory Board Member</p> <p>The Company nominated Katsumasa Minagawa for another term as a candidate for outside Audit & Supervisory Board Member because he is deemed capable of appropriately executing duties as an outside Audit & Supervisory Board Member based on the knowledge and experience he possesses as an attorney at law, and his long-standing engagement in the practice of corporate legal affairs.</p> <p>Furthermore, although Mr. Minagawa has never in the past been involved in the management of a company except as an outside officer, the Company deems that he is capable of suitably fulfilling his role as an outside Audit & Supervisory Board Member for the aforementioned reasons.</p>			

- Notes:
1. There is no special interest between each candidate and the Company.
 2. Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa are the candidates for outside Audit & Supervisory Board Member.
 3. The Company has submitted notification as to the status of the three of Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa as independent officers as defined by the Tokyo Stock Exchange, and if they are elected as originally proposed, the Company plans to once again submit notification as to their status as independent officers.
 4. The Company has entered into an agreement with Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa to limit their liability for damages set forth in Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the same Act. According to these agreements, the limit of

liability for damages shall be the amount stipulated by laws and regulations, and if they are elected as originally proposed, the Company plans to continue these agreements with the three of them.

5. The Company has concluded a directors and officers liability insurance policy with an insurance agency, as set forth in Article 430-3, Paragraph 1 of the Companies Act. This insurance policy covers damages arising from liability borne by the insured persons in the course of execution of their duties as an officer, etc. or claims pertaining to the pursuit of such liability. Each candidate for reelection in this proposal is included as an insured person under this insurance policy, and each candidate will be included as an insured person under this insurance policy if this proposal is approved as originally proposed. The Company plans to renew the insurance policy with the same details as above during the term of office of the Audit & Supervisory Board Member in this proposal.

[Reference] The Directors and Audit & Supervisory Board Members System and Skill Matrix if Proposals 2 is approved

Primary skills: ◎

Supplementary skills: ○

	Years in office	Nomination and Remuneration Committee	Areas of particular expertise							(Main) areas of responsibility
			Corporate management	Finance & accounting	Legal/risk management	Sustainability/ESG	Human resources development	Personnel & labor relations	Technical research and development	
Yuji Otsuka President & Chief Executive Officer Male	32	●	◎	◎	◎	◎	◎	◎	◎	General Manager of Marketing Headquarters
Kazuyuki Katakura Director & Senior Executive Corporate Officer Male	27	-	◎	○	◎	○	○	○	◎	General Manager of Sales Headquarters, and Deputy General Manager of Marketing Headquarters
Hironobu Tsurumi Director & Executive Corporate Officer Male	14	-	◎	○	○	○	○	○	◎	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, and General Manager of CAD Promotion Department
Hironobu Saito Director & Executive Corporate Officer Male	17	●	◎	◎	◎	◎	◎	○	◎	General Manager of Business Administration Headquarters, in charge of Project Promotion Office, Office of Auditors, Marketing Automation Center and Customer Personalized Pages Promotion Center
Minoru Sakurai Director & Managing Corporate Officer Male	13	-	○		◎		○	◎	◎	General Manager of Technology Headquarters
Jiro Makino Outside Independent Director Male	9	● Chair-person	○		◎					Corporate law

	Years in office	Nomination and Remuneration Committee	Areas of particular expertise							(Main) areas of responsibility
			Corporate management	Finance & accounting	Legal/risk management	Sustainability/ESG	Human resources development	Personnel & labor relations	Technical research and development	
Tetsuo Saito Outside Independent Director Male	8	●	◎	◎		○				Corporate management (governance)
Makiko Hamabe Outside Independent Director Female	3	●	◎	◎		◎				Sustainability, ESG, IR
Tatsumi Murata Audit & Supervisory Board Member Male	3	-		○	◎		○			Overall business
Kazuhiko Nakai Outside Independent Audit & Supervisory Board Member Male	12	-	◎	◎						Finance & accounting
Etsuo Hada Outside Independent Audit & Supervisory Board Member Male	8	-	◎	◎	◎					Finance & accounting, corporate law
Katsumasa Minagawa Outside Independent Audit & Supervisory Board Member Male	4	-	◎		◎					Corporate law

Required experience and skills

Skill item	Reason for election
Corporate management	Work experience and professional expertise regarding corporate management that are required to appropriately evaluate risks and opportunities in broad business domains covering our businesses that “support the entire office of our customers” and to achieve sustainable improvement of our corporate value
Finance & accounting	Work experience and professional expertise regarding finance and accounting that are required to ensure accurate financial reporting as well as to build a robust financial base that supports sustainable improvement of our corporate value and to create value on the medium to long term through strategic capital allocation
Legal/risk management	Work experience and professional expertise regarding legal affairs and risk management that are required to comply with laws and to ensure that our corporate activities are sound and based on high ethical standards
Sustainability/ESG	Work experience and professional expertise regarding sustainability and ESG that are required to properly recognize social issues, such as environmental problems and human rights issues, and to fulfill our corporate social responsibility by creating social value and economic value
Personnel & labor relations/human resources development	Work experience and professional expertise regarding personnel, labor relations and human resources development that are required to understand employees’ diverse skills, experience, and values and to develop a working environment and cultivate an organizational culture in which each of our employees can realize their full potential
Technical research and development	Work experience and professional expertise regarding technical research and development that are required to make management decisions for actively introducing new technologies and to supervise and provide advice on value creation through research and development
DX/ICT	Work experience and professional expertise regarding DX and ICT that are required to fully understand OTSUKA CORPORATION’s business model and organizational culture and to innovate and gain a competitive advantage by using and leveraging digital technology

(Reference) Policies and Procedures for Election of Directors and Audit & Supervisory Board Members

<Policy on election of candidates for Directors>

The Company's policy in nominating candidates for Directors is to nominate individuals of good character who have the knowledge, expertise, and experience that will contribute to achieving effective corporate governance, sustainable growth of the Company, and medium- to long-term improvement of corporate value. The Nomination and Remuneration Committee, which includes independent outside Directors, makes decisions on nominees' selection and dismissal after conducting thorough deliberations.

<Policy for election of candidates for Audit & Supervisory Board Members>

The Company's policy in nominating candidates for Audit & Supervisory Board Members is to nominate individuals who have considerable insight and experience in legal, financial and accounting matters. With the consent of the Audit & Supervisory Board, the Nomination and Remuneration Committee makes decisions on nominees' selection and dismissal.

<Nomination procedures for candidates for Directors and Audit & Supervisory Board Members>

Nominations of candidates for Directors are deliberated on and decided by the Board of Directors after being discussed by the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee consists of five or more Directors appointed by resolution of the Board of Directors, the majority of whom are independent outside Directors. The chairperson is selected by resolution of the Nomination and Remuneration Committee from among their members who are independent outside Directors.

Candidates for Audit & Supervisory Board Members are deliberated and decided upon by the Board of Directors in accordance with the provisions of the Companies Act, having obtained the approval of the Audit & Supervisory Board regarding the proposal for their election to the General Meeting of Shareholders.

Proposal 3: Revision of the Amount of Remuneration for Audit & Supervisory Board Members

The amount of remuneration for Audit & Supervisory Board Members of the Company was resolved to be within ¥50 million per year at the 44th Annual General Meeting of Shareholders held on March 30, 2005, which has been effective to date. Given that the responsibilities and expected roles of Audit & Supervisory Board Members have been expanded further and by taking into consideration changes in the economic circumstances and other factors, the Company proposes to revise the amount of remuneration for Audit & Supervisory Board Members to be within ¥80 million per year. Individual remuneration, etc. for Audit & Supervisory Board Members will be determined within the range of the amount of remuneration as above, after discussions among the Audit & Supervisory Board Members.

There are currently four Audit & Supervisory Board Members (three of which are outside Audit & Supervisory Board Members), and there will be no change in the number of Audit & Supervisory Board Members even if Proposal 2 is approved as originally proposed.

The Total amount of remuneration for Directors and Audit & Supervisory Board Members for the fiscal year under review are stated on page 34 of this Convocation Notice.

Business Report

(From January 1, 2023 to December 31, 2023)

1. Current status of the corporate group

(1) Overview of business during the fiscal year

(i) Business activities and results

During the fiscal year under review, despite uncertainties such as impact on the domestic economy of global tightening of monetary policy in addition to soaring resource prices and prices in general, the Japanese economy continued to be on a moderate recovery trend with an improvement in business confidence seen as economic activities gradually normalized. Under these economic conditions, in the IT investment field, companies' investment plans for software were at a high level and demand for IT investment remained firm as companies responded to digitization with the aim of improving productivity, enhancing competitiveness, and reducing costs.

Amid such environment, the OTSUKA Group strived to enhance customer interfaces under the fiscal 2023 slogan, "Get close to and grow together with customers by supporting DX for the entire office of customers." As a result, our sales activities saw more active business negotiations through customer visits in which we can capitalize on the OTSUKA Group's strengths. Specifically, we made proposals for reviewing workflows with the aim of responding to amendments to the Labor Standards Act, the revised Electronic Books Maintenance Act and the Invoice System, and those aimed at realizing digitization of and increased efficiency in operations by combining security measures, integrated DX packages and cloud services. Further, based on our own experience in achieving increased productivity such as by reforming business processes through the use of AI, we supported initiatives to promote DX, including through services that help small- and medium-sized corporate customers to realize the benefits of AI easily.

As a result of the above, net sales in the fiscal year under review increased 13.5% from the previous fiscal year to ¥977,370 million partly due to an increase in net sales per company as we successfully captured companies' solid demand for IT investment. At the earnings level, gross profit increased due to increased revenue while selling, general and administrative expenses, primarily personnel expenses, increased. As a result, operating profit rose 15.0% year on year to ¥62,959 million, ordinary profit increased 13.9% year on year to ¥64,517 million and profit attributable to owners of parent grew 18.6% year on year to ¥47,448 million, recording increased revenue and increased profit. Net sales and various profit at each level were at the highest level ever, and profit attributable to owners of parent grew strongly due to the application of the wage increase promotion tax system and other factors.

(ii) Overview by business segment and principal lines of business

The OTSUKA Group's major businesses are the System Integration business encompassing business areas from building to launching information systems, and the Service and Support business covering the business area of providing support after system launch. The businesses specifically involve consulting, building systems, providing supplies, supporting system administration and operation, etc., distinctively featuring one-stop solutions and one-stop support to widely supply copiers, computers, fax machines, telephones, lines and the like, as well as necessary equipment and software in the office and the related services.

Results by business segment are as follows:

System Integration Business

Principal products▶ Consulting, sales of hardware and software, software development of consigned software, transport and installation work and network construction of equipment, etc.

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction, and its net sales increased 16.3% year on year to ¥630,185 million thanks to favorable performance of packaged software such as "SMILE Series (*1)", consigned software and others, in addition to growth in hardware owing to an increase in PCs.

*1 SMILE Series = The OTSUKA Group's unique integrated core business systems.

Service and Support Business

Principal products▶ Office supplies, maintenance and support for business operations, etc.

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We continued to focus on stock-based business, including the "tanomail" office supply mail-order service business and the "tayoreru^{*2}" support business, with net sales amounting to ¥347,185 million (up 8.7% year on year).

*2 "Tayoreru": this is a business brand which supports customers' IT and overall business operations.

(2) Trends in assets at the end of and operating results in the current and most recent three fiscal years

(i) Trends in operating results and assets of the corporate group

Class		60th fiscal year (FY2020)	61st fiscal year (FY2021)	62nd fiscal year (FY2022)	63rd fiscal year (Current Fiscal Year) (FY2023)
Net sales	(Millions of yen)	836,323	851,894	861,022	977,370
Ordinary profit	(Millions of yen)	57,550	57,567	56,639	64,517
Profit attributable to owners of parent	(Millions of yen)	39,309	39,927	40,022	47,448
Earnings per share (EPS)	(Yen)	207.33	210.59	211.09	250.26
Total assets	(Millions of yen)	471,292	486,254	523,016	561,805
Net assets	(Millions of yen)	280,035	301,774	322,732	346,950
Net assets per share	(Yen)	1,462.80	1,575.64	1,684.53	1,809.66
ROE	(%)	14.6	13.9	13.0	14.3

(ii) Trends in operating results and assets of the Company

Class		60th fiscal year (FY2020)	61st fiscal year (FY2021)	62nd fiscal year (FY2022)	63rd fiscal year (Current Fiscal Year) (FY2023)
Net sales	(Millions of yen)	750,492	766,724	767,649	869,573
Ordinary profit	(Millions of yen)	52,007	50,986	50,692	57,253
Profit	(Millions of yen)	36,336	36,087	36,631	43,150
Earnings per share (EPS)	(Yen)	191.65	190.33	193.20	227.58
Total assets	(Millions of yen)	431,736	443,127	473,250	504,852
Net assets	(Millions of yen)	250,316	268,128	283,595	303,608
Net assets per share	(Yen)	1,320.23	1,414.17	1,495.75	1,601.30

(3) Significant parent company and subsidiaries

(i) Parent company

Not applicable.

(ii) Significant subsidiaries

Name	Share capital (Millions of yen)	Voting rights ratio of the Company (%)	Description of business
OSK Co., Ltd.	400	100.0	Development and sale of packaged software, IT consulting, and consigned software development
Networld Corporation	585	81.5	Sales and technical support for network-related equipment
Alpha Techno Co., LTD.	50	100.0	Emergency repair of PCs and peripheral equipment, and data recovery service
Alpha Net Co., Ltd.	400	100.0	Comprehensive service and support for network systems

Note: For voting rights ratio, fractional numbers are rounded down to the nearest whole unit.

(4) Issues to be addressed

The OTSUKA Group will enhance the quality of management to flexibly respond to changes in the management environment over the medium to long term and aim to improve profitability and raise sales by leveraging collective strength pivoted on cultivation and expansion of trading customers.

To address ongoing issues, the OTSUKA Group will undertake following initiatives.

- Strengthening group management capabilities
- Thorough evaluation of each business area and optimal allocation of management resources
- Strengthening system to develop services
- Strengthening one-stop management system
- Developing human resources

Going forward, caution is warranted for prolonged regional disputes and a downward shift in the global economy resulting from global tightening of monetary policy as well as continued higher prices in general in Japan. However, the economy is expected to continue on a recovery trend, led by domestic demand, including a recovery in private consumption and increase in capital expenditure.

Under these economic conditions, companies are required to promote digitization with the aim of improving productivity and strengthening competitiveness, such as labor-saving investment as a measure to deal with labor shortage, and increased operational efficiency to respond to the regulation on the maximum working hours associated with the Workstyle Reform-related Act. Also, in the IT market companies' IT investment is forecast to remain firm as demand to renew PCs as a result of the termination of Windows 10 support is expected to emerge.

Based on the aforementioned outlook for the domestic economic situation and IT investment trends, the OTSUKA Group will strive to support customers' DX promotion by utilizing the wide range of products and services we offer, which is one of the Group's strengths, while promoting our efforts for supporting DX for the entire office of customers further, under the fiscal 2024 slogan, "Get close to customers and grow together with customers through DX." In particular, for small- and medium-sized corporate customers, who have been lagged in digitization, we will provide support for digitization as well as highly value-added solutions proposals that help them to improve productivity and reduce costs, thereby improving customer satisfaction. In order to do so, we will strive to enhance customer interfaces by combining various channels, such as the functions of each center that supports sales and support activities and Customer Personalized Pages*, in addition to supporting sales processes by utilizing technologies such as AI. We will also provide IT-based services and solutions aimed at resolving ESG issues and contributing to the achievement of the SDGs. Further, we will continue to promote initiatives in fiscal 2024 to improve employees' engagement, such as raising the labor share of income, reforming the management of proposal-making for customers' entire offices, and developing AI human resources, with the aim of reinforcing human capital.

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

[System Integration Business]

In the System Integration Business, we will continue to assess needs to improve productivity, enhance competitiveness and reduce costs, such as digitization of documents. In order to promote digitization at our customers, we will get close to our customers and continue to propose highly value-added solutions by utilizing the wide range of products we offer, which is one of the Group's strengths.

[Service and Support Business]

In the Services & Support business, in the "tanomail" business, we will work to strengthen our competitiveness and expand markets. In the "tayoreru" business, we will make efforts to improve its convenience and develop services that enable customers to continue their business activities safely and with a sense of security as well as services that can supplement the shortage of customers' IT human resources, aiming for a steady increase in net sales.

We will ask our shareholders for continued support with their understanding of the Company's initiatives.

(5) Capital investments

The total amount of capital investment of the corporate group made during the fiscal year under review was ¥9,085 million, an increase of ¥3,178 million compared to the previous fiscal year. Major equipment acquired during the fiscal year under review is as follows.

Major equipment acquired during the fiscal year under review

(Millions of yen)		
Equipment, etc.	Location of equipment	Investment amount
Computers and servers, etc.	Nationwide offices	1,014
Software		5,095
Distribution center facility	Chubu Distribution Center	560

(6) Financing

There was no financing carried out through a capital increase and corporate bond issuance during the fiscal year under review.

The capital investment funds were paid by the Company's capital.

(7) Major creditors of the corporate group (As of December 31, 2023)

(Millions of yen)	
Creditor	Balance of borrowings
The Bank of Yokohama, Ltd.	1,900
MUFG Bank, Ltd.	1,850
Mizuho Bank, Ltd.	1,350

(8) Main offices (As of December 31, 2023)

<OTSUKA CORPORATION>

(i) Head Office: 2-18-4 Iidabashi, Chiyoda-ku, Tokyo

(ii) Main Departments: LA Division (Chiyoda-ku, Tokyo)
BP Division (Chiyoda-ku, Tokyo)
Tanomail Business Division (Chiyoda-ku, Tokyo)
Hotel Division (Taito-ku, Tokyo)

(iii) Local Area Sales Departments and Regional Offices

Local Area Sales Departments		Regional Offices	
Name	Location	Name	Location
Chuo Sales Dept. 1	Chuo-ku, Tokyo	Sapporo Branch	Chuo-ku, Sapporo
Chuo Sales Dept. 2	Minato-ku, Tokyo	Sendai Branch	Miyagino-ku, Sendai
Kanagawa Sales Dept.	Kanagawa-ku, Yokohama	Tsukuba Branch	Tsukuba-shi, Ibaraki
Josai Sales Dept.	Shinjuku-ku, Tokyo	Utsunomiya Branch	Utsunomiya-shi, Tochigi
Tama Sales Dept.	Tachikawa-shi, Tokyo	Takasaki Branch	Takasaki-shi, Gunma
Johoku Sales Dept.	Toshima-ku, Tokyo	Chubu Branch	Naka-ku, Nagoya
Northern Kanto Sales Dept.	Omiya-ku, Saitama	Kyoto Branch	Nakagyo-ku, Kyoto
Keiyo Sales Dept.	Funabashi-shi, Chiba	Kobe Branch	Chuo-ku, Kobe
Osaka Northern Sales Dept.	Fukushima-ku, Osaka	Hiroshima Branch	Naka-ku, Hiroshima
Osaka Southern Sales Dept.	Chuo-ku, Osaka	Kyushu Branch	Hakata-ku, Fukuoka

(iv) Other locations

Name	Location
“tayoreru” Contact Center	Shinjuku-ku, Tokyo, etc.
Internet Data Center	Chiyoda-ku, Tokyo, etc.
CTO Center	Ota-ku, Tokyo, Nishiyodogawa-ku, Osaka
ODT Center	Ichikawa-shi, Chiba
Hotel New Sagamiya and other three hotels	Atami-shi, Shizuoka, and other three locations

<Principal subsidiaries>

Name	Location	Name	Location
OSK Co., Ltd.	Sumida-ku, Tokyo	Alpha Techno Co., LTD.	Narashino-shi, Chiba
Networld Corporation	Chiyoda-ku, Tokyo	Alpha Net Co., Ltd.	Bunkyo-ku, Tokyo

(9) Employees (As of December 31, 2023)

(i) Employees of the corporate group

Number of employees	Increase/decrease from the previous fiscal year-end
9,421 (1,576)	Increased by 213 (increased by 92)

Note: The number of employees represents the number of full-time employees (excluding those seconded to external companies and including those seconded to the Company), and the number of casual employees is stated in parentheses. Casual employees include contract employees, part-time employees, and employees dispatched from human resources companies. In addition, contract employees and part-time employees include permanent employment contractors.

(ii) Employees of the Company

Number of employees	Increase/decrease from the previous fiscal year-end	Average age (years)	Average years of service (years)
7,713 (1,257)	Increased by 189 (increased by 70)	41.7	17.4

Note: The number of employees represents the number of full-time employees (excluding those seconded to external companies and including those seconded to the Company from the external companies), and the number of casual employees is stated in parentheses.

Casual employees include contract employees, part-time employees and employees dispatched from human resources companies. In addition, contract employees and part-time employees include permanent employment contractors.

(10) Other significant matters relating to the current status of the corporate group

No important facts requiring special attention.

2 Status of other companies, etc.

(1) Shares (As of December 31, 2023)

(i) Total number of authorized shares	677,160,000
(ii) Total number of issued shares	190,002,120
(iii) Number of shareholders	6,881
(iv) Major shareholders (top 10 shareholders)	

Name	Number of shares held (Thousands of shares)	Equity ownership (%)
Otsuka Sobi Co., Ltd.	63,602	33.54
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,422	10.24
Custody Bank of Japan, Ltd. (Trust Account)	14,023	7.39
Yuji Otsuka	4,681	2.46
OTSUKA CORPORATION Employee Stock-Sharing Plan	4,406	2.32
Keiko Otsuka	3,481	1.83
JPMorgan Securities Japan Co., Ltd.	2,951	1.55
STATE STREET BANK WEST CLIENT-TREATY 505234	2,459	1.29
SMBC Nikko Securities Inc.	2,185	1.15
Atsushi Otsuka	1,860	0.98

- Notes: 1. The number of shares held is rounded down to the nearest thousand.
2. Equity ownership is calculated after deducting treasury stock (401,198 shares).
3. Equity ownership is rounded down to two decimal places.

(v) Other important matters related to shares

The Company resolved at a Board of Directors meeting held on February 1, 2024 that it would conduct a 2-for-1 stock split for shares of common stock with April 1, 2024 as the effective date. At the meeting on that same day, the Company also resolved to change the total number of authorized shares as provided for in Article 6 of the Articles of Incorporation to 1,354,320,000 shares.

(2) Share acquisition rights

Not applicable.

(3) Directors and Audit & Supervisory Board Members of the Company

(i) Directors and Audit & Supervisory Board Members (As of December 31, 2023)

Position in the Company	Name	Responsibilities in the Company and significant concurrent positions outside the Company
President & Chief Executive Officer	Yuji Otsuka	General Manager of Marketing Headquarters [Significant concurrent positions outside the Company] President & Chief Executive Officer of Otsuka Sobi Co., Ltd.
Director & Senior Executive Corporate Officer	Kazuyuki Katakura	General Manager of Sales Headquarters, and Deputy General Manager of Marketing Headquarters
Director & Executive Corporate Officer	Hironobu Tsurumi	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, and General Manager of CAD Promotion Department [Significant concurrent positions outside the Company] Chairman of Otsuka Information Technology Corp.
Director & Executive Corporate Officer	Hironobu Saito	General Manager of Business Administration Headquarters, in charge of Project Promotion Office, Office of Auditors, Marketing Automation Center and Customer Personalized Pages Promotion Center
Director & Managing Corporate Officer	Minoru Sakurai	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department
Director	Jiro Makino	Attorney at law [Significant concurrent positions outside the Company] Director of MAKINO legal professional corporation
Director	Tetsuo Saito	[Significant concurrent positions outside the Company] Representative Director of Work Two Co., Ltd., Outside Audit and Supervisory Board Member of DD GROUP Co., Ltd., Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd., and Outside Director of Career Design Center Co., Ltd.
Director	Makiko Hamabe	[Significant concurrent positions outside the Company] Representative of Makiko Hamabe Office External Auditor of McDonald's Holdings Company (Japan), Ltd.
Audit & Supervisory Board Member	Tatsumi Murata	–

Position in the Company	Name	Responsibilities in the Company and significant concurrent positions outside the Company
Audit & Supervisory Board Member	Kazuhiko Nakai	Certified public accountant, and certified public tax accountant [Significant concurrent positions outside the Company] Director of Kazuhiko Nakai Tax Accountant Office Director of Kazuhiko Nakai CPA Office Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. External Director of S-Pool, Inc.
Audit & Supervisory Board Member	Etsuo Hada	Certified public accountant, certified public tax accountant, judicial scrivener, and administrative scrivener [Significant concurrent positions outside the Company] Director of Hada CPA and Judicial Scrivener Office Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd.
Audit & Supervisory Board Member	Katsumasa Minagawa	Attorney at law [Significant concurrent positions outside the Company] Representative Attorney of Kollect Partners Outside Statutory Auditor of Ubiquitous AI Corporation

- Notes: 1. Directors Jiro Makino, Tetsuo Saito, and Makiko Hamabe are outside Directors. The Company has submitted notification to the Tokyo Stock Exchange that Jiro Makino, Tetsuo Saito and Makiko Hamabe have been designated as independent officers as provided for by the aforementioned exchange.
2. Audit & Supervisory Board Members Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa are outside Audit & Supervisory Board Members. The Company has submitted notification to the Tokyo Stock Exchange that Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa have been designated as independent officers as provided for by the aforementioned exchange.
3. Audit & Supervisory Board Members Kazuhiko Nakai and Etsuo Hada have considerable knowledge of finance and accounting as certified public accountants.
4. Director & Senior Executive Corporate Officer, Toshiyasu Takahashi and Director & Managing Corporate Officer, Katsuhiko Yano resigned at the conclusion of the 62nd Annual General Meeting of Shareholders held on March 29, 2023, as their terms of office matured.

5. The Directors' roles transferred during the fiscal year under review were as follows.

(Amendments are underlined.)

Name	New role	Previous role	Transfer date
Minoru Sakurai	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department, <u>and Executive Department Head of TC Solution Department</u>	March 29, 2023

6. The Company introduced the Executive Officer System. Corporate Officers, excluding those concurrently serving as the Directors, are as follows. (As of December 31, 2023)

Managing Corporate Officer	Kazuki Kimura	Executive Division Manager of Tanomail Business Division
Chief Corporate Officer	Ryosuke Mizutani	Executive Department Head of Telecommunication Network Department, General Manager of Telecommunication Network Promotion Department
Senior Corporate Officer	Kazuhiko Goto	Head of Outbound Marketing Management Center, General Manager of Regional Promotion Department, General Manager of Advertising Department, in charge of Sales Support Center
Senior Corporate Officer	Toshio Otani	Head of Total Solution Group, Head of Inside Business Center, Head of SPR/CRM Center
Senior Corporate Officer	Hiroshi Muto	Assistant to Executive Department Head of CAD Department, General Manager of PLM Solution Department
Senior Corporate Officer	Takahiro Jinushi	Head of Marketing Automation Center
Senior Corporate Officer	Koichiro Yamada	Executive Department Head of Industry SI Department, General Manager of Headquarters SI Supervision and General Manager of Industry SI Promotion Department
Senior Corporate Officer	Kazuhiro Kohara	Executive Division Manager of LA Division, General Manager of Broad Regional Sales Department, LA Division
Senior Corporate Officer	Yoshihiro Tokura	Assistant to Executive Department Head of Industry SI Department
Senior Corporate Officer	Hiroki Saito	General Manager of Northern Kanto Sales Dept.
Senior Corporate Officer	Tatsuya Shimizu	Executive Department Head of TC Solution Department, and Head of Technical Solution Center
Senior Corporate Officer	Kazuo Uneno	General Manager of Finance and Accounting Department

Corporate Officer	Norihide Seino	General Manager of Kanagawa Sales Dept.
Corporate Officer	Isao Murakami	Executive Division Manager of BP Division, General Manager of East Japan Sales Department, BP Division, General Manager of MA/CAD Sales Department, BP Division, General Manager of BPMRO Sales Department
Corporate Officer	Shinichi Asaka	Head of Application Solution Center
Corporate Officer	Koichi Hisano	Head of President's Office, General Manager of Compliance Office
Corporate Officer	Tomohiro Tsuchiya	Assistant to Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Sales Division, General Manager of Tanomail Information Department, General Manager of Tanomail Marketing Department
Corporate Officer	Hiroki Yamaguchi	Total Solution Master
Corporate Officer	Kenji Watanabe	Total Solution Master
Corporate Officer	Shigeru Koizumi	General Manager of Human Resources and General Affairs Department
Corporate Officer	Shinji Koike	Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office
Corporate Officer	Teruki Ashihara	General Manager of Osaka Southern Sales Dept.
Corporate Officer	Kenji Kuwabara	Assistant to Head of Application Solution Center
Corporate Officer	Hiroshi Iwamiya	General Manager of Products Department, in charge of Logistics Promotion Department
Corporate Officer	Kazuya Hamaguchi	Executive Department Head of Support Center, Head of Tayoreru Management Service Center
Corporate Officer	Naoko Sano	General Manager of Operation Administration Department

(ii) Summary of details of contract of limited liability

The Company has entered into agreements with each outside Director and each Audit & Supervisory Board Member to limit their liability for damages set forth in Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the same Act and the Articles of Incorporation.

According to the agreement, the limit of liability for damages shall be the amount stipulated by laws and regulations.

(iii) Summary of details of directors and officers liability insurance policy

The Company has concluded a directors and officers liability insurance policy with an insurance agency, as set forth in Article 430-3, Paragraph 1 of the Companies Act. Directors, Audit & Supervisory Board Members, Corporate Officers, and externally dispatched officers of the Company and its subsidiaries are insured under this insurance policy. It covers compensation for damage and litigation expenses incurred as a result of claims for damages arising from the insured persons' execution (including omissions) of their duties. However, the insurance policy does not cover certain reasons for exemption, including damages caused by criminal acts such as bribery or intentional illegal acts. The Company and its subsidiaries bear the insurance expenses of the said insurance policy in full.

(iv) Remuneration for Directors and Audit & Supervisory Board Members for the fiscal year

- 1) Policy, etc. on Determination of Details of Remuneration for Directors and Audit and Supervisory Board Members, etc.

The Company has resolved at a meeting of its Board of Directors on the policy for determining the details of individual remuneration for Directors. With respect to the individual remuneration for Directors for the fiscal year under review, the Board of Directors has confirmed and judged that the method of determining the details of remuneration, etc. and the details of remuneration, etc. determined thereby are consistent with the determination policy resolved at the meeting of the Board of Directors and are in line with the said policy.

The details of the policy for determining the details of individual remuneration for Directors are as follows:

[Policy for Determining Remuneration for Directors]

Remuneration for Directors (excluding outside Directors) is monetary remuneration and consists of basic remuneration, bonuses, earnings bonuses, retirement benefits for officers (saving-type remuneration at time of retirement), and defined contribution corporate pension plan (for standing Directors under 60 years old), within the limit approved by the General Meeting of Shareholders. In addition, Directors who concurrently serve as Corporate Officers shall also receive a component of their Director remuneration for their position and performance as a Corporate Officer. The remuneration levels and the composition ratios for each of the following remunerations in the individual remuneration for Directors are set according to the responsibilities and

level of contribution, etc. after referencing survey data, etc. provided by an external specialist body.

- i) Basic remuneration is paid on a monthly basis in an amount determined after giving comprehensive consideration to the evaluation of the performance over prior fiscal years of the division that the individual director is responsible for, and considering the balance between the level of remuneration at other companies and the salary of employees.
- ii) In order to ensure that bonuses are linked to the level of contribution to the operation of the Company, they are based on the Company's overall performance over the period they cover, the performance of the division the Director is in charge of, and each individual Director's level of contribution to the performance, while ensuring transparency with regard to the bonus's correlation with performance and keeping within a level of payment decided beforehand that corresponds to the level of achievement of the target value for operating profit, which has a strong correlation with the share price. Bonuses are paid in an amount determined accordingly annually in July and December.
- iii) Earnings bonuses are paid around February and August of each year in an amount as determined according to the rate of achievement of the operating profit target at the second quarter closing and at the fiscal year closing, and their payment is in accordance with the fiscal year closing and second-quarter closing system for employees.
- iv) Retirement benefits for officers are paid to officers in accordance with the provisions of rules on retirement benefits as consideration for the performance of duties, and an annual basic amount set for each rank of standing Director is accrued, and the cumulative amount* is calculated at the time of the Director's retirement based on a resolution of the General Meeting of Shareholders.
- v) The defined contribution corporate pension plan is the highest amount awarded to employees and contributed at a constant amount every month for standing Directors under 60 years old in accordance with the defined contribution pension rules that have been established by a resolution of the Board of Directors.

Concerning the remuneration paid to outside Directors, from the perspective of maintaining independence, remuneration consists of only fixed basic remuneration. The basic remuneration is up to a limit that has been approved at the General Meeting of Shareholders, based on the remuneration level of other companies and that of standing Directors of the Company. The basic remuneration is paid on a monthly basis.

As per the above policy, the Nomination and Remuneration Committee, an advisory body to the Board of Directors, deliberates i) basic remuneration, ii) bonuses, and iv) retirement benefits for officers as well as remuneration for outside Directors. The said committee then reports the results of its deliberations to the Board of Directors, which makes determinations.

The Nomination and Remuneration Committee is comprised of five or more Directors elected by resolution of the Board of Directors, and a majority of the members are independent outside Directors. The Chairperson is elected by resolution of the Nomination and Remuneration Committee from among the members who are independent outside Directors.

[Reference]

Annual basic amount for each position as stipulated in the provisions for retirement benefits for directors (and other officers) (Commencing April 2003)

Position	Certain amount for each position (ten thousand yen)
President & Chief Executive Officer	1,200
Director & Senior Executive Corporate Officer	400
Director & Executive Corporate Officer	370
Director & Senior Managing Corporate Officer	300
Director & Managing Corporate Officer	280
Director & Senior Corporate Officer	200

* Cumulative amount of annual basic amount for each position (certain amount for each position) × number of years in the position

Remuneration for Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members) is monetary remuneration, and basic remuneration is paid within the limit approved by the General Meeting of Shareholders. The amount of basic remuneration is determined through discussions among the Audit & Supervisory Board Members and is paid monthly.

Retirement benefits for Audit & Supervisory Board Members had been applicable only to Audit & Supervisory Board Members. However, at the Board of Directors meeting held on February 21, 2022, and the General Meeting of Shareholders held on March 29, 2022, the abolishment of the retirement benefits system for Audit & Supervisory Board Members at the conclusion of the General Meeting of Shareholders was resolved. In addition, to compensate the Audit & Supervisory Board Members for their efforts from the time of their assumption of office until the conclusion of the General Meeting of Shareholders, at the aforementioned Board of Directors meeting and General Meeting of Shareholders, it was resolved that the Company pays final retirement benefits to them within the range of the suitable amount prescribed by criteria established by the Company, and the timing of payment is at the time of their retirement as Audit & Supervisory Board Members, and the actual amount, method etc. of payment shall be determined through deliberation by the Audit & Supervisory Board Members. Compensation for outside Audit & Supervisory Board Members is monetary remuneration, and only fixed basic remuneration is paid. The amount of basic remuneration is determined through discussions among the Audit & Supervisory Board Members and is paid monthly.

2) Total amount of remuneration for Directors and Audit & Supervisory Board Members

Class	Total Remuneration (Millions of yen)	Breakdown of remuneration (Millions of yen)			Number of officers (Persons)
		Fixed remuneration	Performance- linked remuneration	Retirement benefits	
Directors (excluding outside Directors)	369	195	119	54	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	25	25	–	–	1
Outside Director	39	39	–	–	3
Outside Audit & Supervisory Board Member	22	22	–	–	3

- Notes:
1. The above includes two Directors who retired at the conclusion of the 62nd Annual General Meeting of Shareholders held on March 29, 2023.
 2. The amount of remuneration for Directors does not include the employee salary portion in the case of Directors who concurrently serve as employees.
 3. The amount of annual remuneration for Directors is up to ¥650 million, as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include the portion of employee salaries). At the conclusion of said General Meeting of Shareholders, the number of Directors was 18.
 4. The amount of annual remuneration for Audit & Supervisory Board Members is up to ¥50 million, as approved at the General Meeting of Shareholders on March 30, 2005. At the conclusion of said Annual General Meeting of Shareholders, the number of Audit & Supervisory Board Members was four.
 5. The increase in provision for retirement benefits for directors (and other officers) in the fiscal year under review is included in the above retirement benefits.
 6. The actual results of the performance indicators used to calculate the amount of performance-linked remuneration for the fiscal year under review are as follows: for bonuses, operating profit of ¥54,281 million for the period subject to the bonuses (target: ¥50,877 million; achievement rate: 106.7%); and for earnings bonuses, operating profit of ¥55,323 million for the fiscal year (target: ¥51,800 million; achievement rate: 106.8%).
 7. The Company resolved at the 61st Annual General Meeting of Shareholders held on March 29, 2022 to abolish the retirement benefits system for Audit & Supervisory Board Members upon the conclusion of the said general meeting and to pay retirement benefits at the time of retirement to one Audit & Supervisory Board Member who was to continue to serve after the conclusion of the meeting, in an amount corresponding to the period of service up to the abolishment of the system.

(4) Outside Directors and outside Audit & Supervisory Board Members

(i) Significant concurrent positions at other organizations and relationships between the Company and such other corporations

Position	Name	Significant concurrent positions outside the Company	Relation with the Company
Outside Director	Jiro Makino	Attorney at law Director of MAKINO legal professional corporation	No special relation
Outside Director	Tetsuo Saito	Representative Director of Work Two Co., Ltd. Outside Audit and Supervisory Board Member of DD GROUP Co., Ltd. Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd. Outside Director of Career Design Center Co., Ltd.	No special relation
Outside Director	Makiko Hamabe	Representative of Makiko Hamabe Office External Auditor of McDonald's Holdings Company (Japan), Ltd.	No special relation
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	Certified public accountant, and certified public tax accountant Director of Kazuhiko Nakai Tax Accountant Office Director of Kazuhiko Nakai CPA Office Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. External Director of S-Pool, Inc.	No special relation
Outside Audit & Supervisory Board Member	Etsuo Hada	Certified public accountant, certified public tax accountant, judicial scrivener, and administrative scrivener Director of Hada CPA and Judicial Scrivener Office Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd.	No special relation
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	Attorney at law Representative Attorney of Kollect Partners Outside Statutory Auditor of Ubiquitous AI Corporation	No special relation

(ii) Major activities during the fiscal year

Position	Name	Attendance, remarks, and summary of duties performed in relation to the roles expected of outside Directors
Outside Director	Jiro Makino	Jiro Makino attended 18 of the 19 meetings of the Board of Directors held during the fiscal year under review. He proactively states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a lawyer. In the fiscal year under review, he expressed opinions on the payment of retirement benefits to retiring Directors, quarterly financial results, promotion of more active participation of women, capital investments, the plan for relocation and expansion, etc. of distribution centers, revisions to the rules, and other matters. As the chairperson of the Nomination and Remuneration Committee, he also attended all six meetings of the said committee held during the fiscal year under review and performed a supervisory function from an objective and neutral perspective in the process of determining the proposal for electing Directors and officer remuneration, etc. of the Company.
Outside Director	Tetsuo Saito	Tetsuo Saito attended all 19 meetings of the Board of Directors held during the fiscal year under review. Over the years, he has been involved in the management of numerous companies in many different industries, and proactively states his opinions to ensure fairness and appropriateness of decision-making at the Board of Directors. In the fiscal year under review, he expressed opinions on the payment of retirement benefits to retiring Directors, monthly and quarterly financial results, capital investments, the sale of real estate properties, VPPA contracts, revisions to the rules, and other matters. As a member of the Nomination and Remuneration Committee, he also attended all six meetings of the said committee held during the fiscal year under review and performed a supervisory function from an objective and neutral perspective in the process of determining the proposal for electing Directors and officer remuneration, etc. of the Company.

Position	Name	Attendance, remarks, and summary of duties performed in relation to the roles expected of outside Directors
Outside Director	Makiko Hamabe	Makiko Hamabe attended all 19 meetings of the Board of Directors held during the fiscal year under review. She proactively states her opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors by leveraging a high level of knowledge regarding ESG and IR. In the fiscal year under review, she expressed opinions on the payment of retirement benefits to retiring Directors, announcement plans, monthly and quarterly financial results, corporate governance reports, promotion of more active participation of women, information disclosure in line with the TCFD recommendations, the sale of strategic shareholdings, the deposit of callable deposits, revisions to the rules, and other matters. As a member of the Nomination and Remuneration Committee, she also attended all six meetings of the said committee held during the fiscal year under review and performed a supervisory function from an objective and neutral perspective in the process of determining the proposal for electing Directors and officer remuneration, etc. of the Company.
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	Kazuhiko Nakai attended all 19 meetings of the Board of Directors and all 17 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a certified public accountant and certified public tax accountant. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.
Outside Audit & Supervisory Board Member	Etsuo Hada	Etsuo Hada attended all 19 meetings of the Board of Directors and all 17 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a certified public accountant, certified public tax accountant, judicial scrivener, and administrative scrivener. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	Katsumasa Minagawa attended 18 of the 19 meetings of the Board of Directors and all 17 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a lawyer. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.

Note: Apart from the number of the Board of Directors' meetings held mentioned above, there were three written resolutions passed by deeming that a Board of Directors' meeting was held in accordance with the provisions of Article 370 of the Companies Act and Article 28, Paragraph 2 of the Articles of Incorporation of the Company.

(5) Accounting Auditor

(i) Name Ernst & Young ShinNihon LLC

(ii) Amount of fee for Accounting Auditor for the fiscal year

(Millions of yen)

Class	For auditing and certification services	Non-auditing services
The Company	76	2
Consolidated subsidiaries	18	–
Total	94	2

- Notes: 1. Ernst & Young ShinNihon LLC is the Accounting Auditor for subsidiaries of the Company.
2. The audit agreement concluded between the Company and the Accounting Auditor does not clearly divide the audit fee amount between the fees for audit performed under the Companies Act and that for audit performed under the Financial Instruments and Exchange Act. As each amount cannot be obtained substantially, the fees for auditing and certification services is stated in the total amount.
3. The Audit & Supervisory Board concluded to approve the amount of fees, etc., for the Accounting Auditor based on the necessary examination conducted to ensure the appropriateness of details of the Accounting Auditor's audit plan, the executing status of accounting audit duties, and the basis for the calculation of fee estimates.

(iii) Details of non-auditing services

The Company paid the Accounting Auditor consideration for providing advice, etc. in relation to the preparation of an English translation of an annual securities report, which is outside the scope of operations prescribed under Article 2, Paragraph 1 of the Certified Public Accountants Act of Japan.

(iv) Policy on dismissal or determining non-reappointment of Accounting Auditor

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

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

(v) Summary of details of contract of limited liability

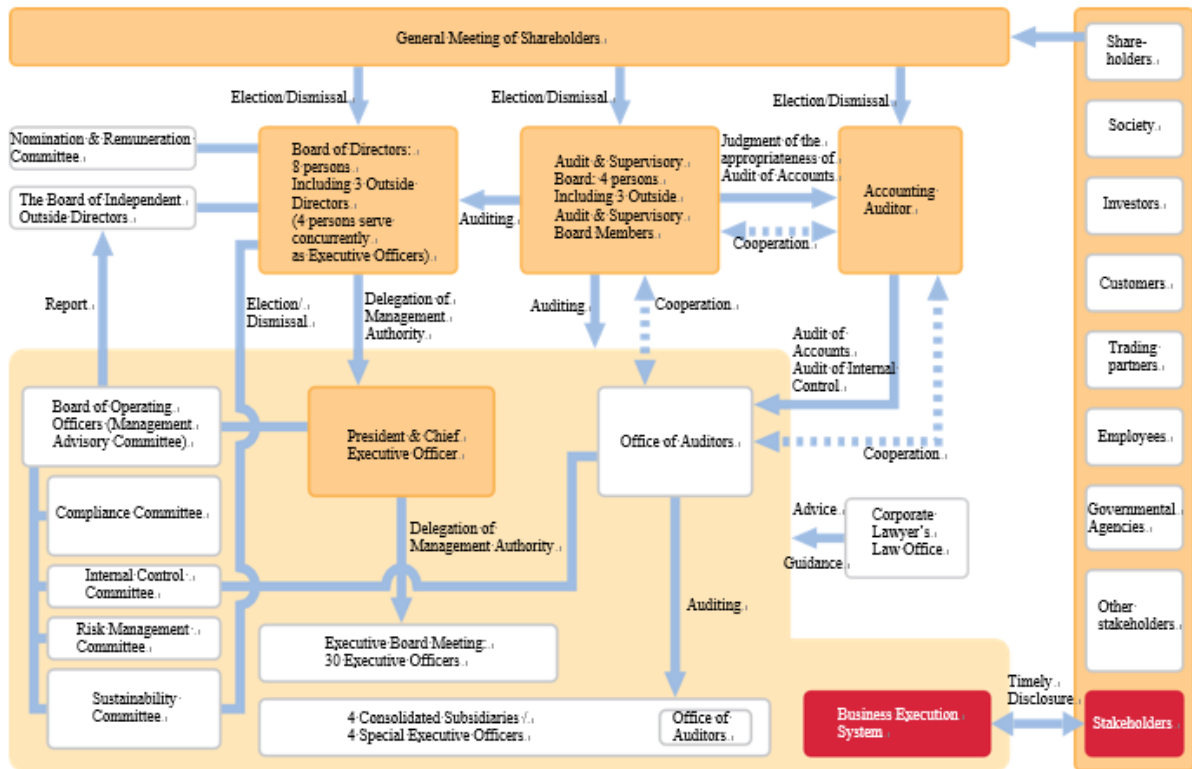
Not applicable.

(Reference) Corporate Governance

(i) Basic approach to corporate governance

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

(ii) Corporate Governance System of the OTSUKA Group



(Reference) Sustainability

The OTSUKA CORPORATION Group aims to realize a sustainable society and continuously increase corporate value by earnestly working to resolve “environmental” and “social” issues and building an optimal governance system in practicing the mission, goals, and principles set forth in the Mission Statement.

Sustainability Basic Policy

1. Environmental

- We strive to reduce greenhouse gas emissions to realize a carbon-free society.
- We work to preserve the natural environment and give consideration to biodiversity.
- With crisis management measures in preparation for natural disasters we support business continuity throughout the supply chain.
- We strive to prevent environmental pollution by developing and promoting environmentally friendly solutions and technologies.

2. Social

- We respect the human rights and diversity of individuals and promote business activities that are rewarding to work in.
- We realize a safe and comfortable work environment and fair and appropriate evaluations, and give consideration to work-life balance.
- We strive to provide safe and secure products and services, ensure compliance with domestic and foreign laws and regulations, and conduct fair and appropriate transactions with our business partners.
- We live up to the trust of our customers by supporting their business activities and their sustainable growth.

3. Governance

- We provide appropriate information disclosure and responsible dialogue with all stakeholders.

Date of establishment: April 13, 2022

Please refer to our website for specific initiatives.

<https://www.otsuka-shokai.co.jp/corporate/csr/> (in Japanese only)

Consolidated Financial Statements

Consolidated Balance Sheets

(As of December 31, 2023)

(Millions of yen)

Account	Amount	Account	Amount
Assets		Liabilities	
Current assets	459,794	Current liabilities	203,263
Cash and deposits	228,692	Notes and accounts payable - trade	105,485
Notes and accounts receivable - trade, and contract assets	155,269	Electronically recorded obligations - operating	19,831
Merchandise	36,068	Short-term borrowings	4,400
Work in process	1,413	Income taxes payable	9,495
Raw materials and supplies	755	Contract liabilities	16,443
Other	37,689	Provision for bonuses	4,480
Allowance for doubtful accounts	(93)	Other	43,126
Non-current assets	102,010	Non-current liabilities	11,591
Property, plant and equipment	34,674	Long-term borrowings	1,700
Buildings and structures	13,831	Lease obligations	1,204
Land	14,448	Provision for retirement benefits for directors	644
Other	6,394	Retirement benefit liability	6,961
Intangible assets	16,065	Other	1,080
Software	16,006	Total liabilities	214,854
Other	59	Net assets	
Investments and other assets	51,270	Shareholders' equity	338,025
Investment securities	26,306	Share capital	10,374
Guarantee deposits	3,108	Capital surplus	16,254
Deferred tax assets	8,026	Retained earnings	311,537
Deferred tax assets for land revaluation	2,448	Treasury shares	(141)
Other	11,507	Accumulated other comprehensive income	5,087
Allowance for doubtful accounts	(127)	Valuation difference on available-for- sale securities	7,424
		Deferred gains or losses on hedges	(35)
		Revaluation reserve for land	(5,269)
		Foreign currency translation adjustment	289
		Remeasurements of defined benefit plans	2,678
		Non-controlling interests	3,838
		Total net assets	346,950
Total assets	561,805	Total liabilities and net assets	561,805

Note: All amounts less than one million yen are rounded down.

Consolidated Statements of Income
(From January 1, 2023 to December 31, 2023)

(Millions of yen)

Account	Amount	
Net sales		977,370
Cost of sales		773,392
Gross profit		203,978
Selling, general and administrative expenses		141,019
Operating profit		62,959
Non-operating income		
Interest income	18	
Dividend income	380	
Rental income from buildings	202	
Income from recycling	199	
Share of profit of entities accounted for using equity method	825	
Foreign exchange gains	362	
Other	234	2,224
Non-operating expenses		
Interest expenses	41	
Donations	619	
Other	5	665
Ordinary profit		64,517
Extraordinary income		
Gain on sale of non-current assets	707	
Gain on sale of investment securities	119	
Other	12	839
Extraordinary losses		
Loss on retirement of non-current assets	26	
Impairment losses	245	
Loss on valuation of investment securities	190	
Other	2	464
Profit before income taxes		64,892
Income taxes - current	17,542	
Income taxes - deferred	(738)	16,803
Profit		48,089
Profit attributable to non-controlling interests		640
Profit attributable to owners of parent		47,448

Note: All amounts less than one million yen are rounded down.

Non-consolidated Financial Statements

Balance Sheets

(As of December 31, 2023)

(Millions of yen)

Account	Amount	Account	Amount
Assets		Liabilities	
Current assets	407,064	Current liabilities	189,928
Cash and deposits	207,998	Notes payable - trade	1
Notes receivable - trade	4,064	Electronically recorded obligations - operating	19,831
Accounts receivable - trade	128,519	Accounts payable - trade	96,305
Contract assets	995	Short-term borrowings	3,400
Merchandise	30,959	Accounts payable - other	22,469
Work in process	1,308	Income taxes payable	8,050
Raw materials and supplies	730	Contract liabilities	10,287
Advance payments to suppliers	9,974	Deposits received	14,329
Accounts receivable - other	17,905	Provision for bonuses	3,974
Other	4,701	Other	11,278
Allowance for doubtful accounts	(93)	Non-current liabilities	11,316
Non-current assets	97,788	Long-term borrowings	1,700
Property, plant and equipment	34,611	Lease obligations	1,193
Buildings	13,718	Provision for retirement benefits	6,873
Land	14,448	Provision for retirement benefits for directors	496
Other	6,444	Other	1,052
Intangible assets	15,330	Total liabilities	201,244
Software	15,288	Net assets	
Other	42	Shareholders' equity	301,588
Investments and other assets	47,845	Share capital	10,374
Investment securities	17,430	Capital surplus	16,254
Shares of subsidiaries and associates	7,172	Legal capital surplus	16,254
Guarantee deposits	2,565	Retained earnings	275,099
Deferred tax assets	6,632	Legal retained earnings	2,593
Deferred tax assets for land revaluation	2,448	Other retained earnings	272,506
Other	11,723	General reserve	67,350
Allowance for doubtful accounts	(127)	Retained earnings brought forward	205,156
		Treasury shares	(141)

Account	Amount	Account	Amount
		Valuation and translation adjustments	2,020
		Valuation difference on available-for-sale securities	7,290
		Revaluation reserve for land	(5,269)
		Total net assets	303,608
Total assets	504,852	Total liabilities and net assets	504,852

Note: All amounts less than one million yen are rounded down.

Statements of Income
(From January 1, 2023 to December 31, 2023)

(Millions of yen)

Account	Amount	
Net sales		869,573
Cost of sales		682,528
Gross profit		187,044
Selling, general and administrative expenses		131,720
Operating profit		55,323
Non-operating income		
Interest income	14	
Dividend income	1,983	
Rental income from buildings	194	
Income from recycling	199	
Other	238	2,630
Non-operating expenses		
Interest expenses	75	
Donations	619	
Other	5	700
Ordinary profit		57,253
Extraordinary income		
Gain on sale of non-current assets	703	
Gain on sale of investment securities	119	
Other	12	834
Extraordinary losses		
Loss on retirement of non-current assets	24	
Impairment losses	245	
Loss on valuation of investment securities	190	
Other	2	463
Profit before income taxes		57,625
Income taxes - current	15,138	
Income taxes - deferred	(663)	14,475
Profit		43,150

Note: All amounts less than one million yen are rounded down.

(TRANSLATION)

Accounting audit report on the consolidated financial statements

Independent Auditor's Report (Translation)

February 13, 2024

OTSUKA CORPORATION
The Board of Directors

Ernst & Young ShinNihon LLC
Tokyo Office, Japan

Designated
Engagement Partner

Certified
Public
Accountant

**Munetake
Kamiyama**

Designated
Engagement Partner

Certified
Public
Accountant

Hideaki Keyaki

Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to the consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries (the "Group") applicable to the fiscal year from January 1, 2023 to December 31, 2023.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and results of operations of the Group applicable to the fiscal year ended December 31, 2023, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Other information

The other information comprises the business report and the accompanying detailed statements. Management is responsible for the preparation and disclosure of the other information. In addition, Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the aforementioned other information, and we express no opinion on the other information. Our responsibility in the audit of the consolidated financial statements is to read the other information and, in the course of reading the other information, to consider whether there are material differences between the other information and the consolidated financial statements or our knowledge obtained in the course of audit, and to pay

attention to whether there are other indications of material errors in the other information besides such material differences.

If, based on the work we have performed, we determine that there are material errors in the other information, we are required to report those facts.

Regarding the other information, we have no other matters to report.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board 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. This includes maintenance and operation of such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

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

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

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

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

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding 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, and other matters required by auditing standards.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related measures in order to eliminate or safeguards in order to reduce to the acceptable level obstruction factors.

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

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

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

Accounting audit report on the non-consolidated financial statements

Independent Auditor's Report (Translation)

February 13, 2024

OTSUKA CORPORATION
The Board of Directors

**Ernst & Young ShinNihon LLC
Tokyo Office, Japan**

Designated
Engagement Partner

Certified
Public
Accountant

**Munetake
Kamiyama**

Designated
Engagement Partner

Certified
Public
Accountant

Hideaki Keyaki

Opinion

Pursuant to Article 436, paragraph 2, item (i) of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the balance sheet, the statement of income, the statement of changes in equity, the notes to the non-consolidated financial statements and the related supplemental schedules (collectively, "non-consolidated financial statements, etc.") of OTSUKA CORPORATION (the "Company") applicable to the 63rd fiscal year from January 1, 2023 to December 31, 2023.

In our opinion, the non-consolidated financial statements, etc. referred to above present fairly, in all material respects, the financial position and results of operations of the Company, applicable to the fiscal year ended December 31, 2023, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Other information

The other information comprises the business report and the accompanying detailed statements. Management is responsible for the preparation and disclosure of the other information. In addition, Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the reporting process for the other information.

Our opinion on the non-consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the non-consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Non-consolidated Financial Statements, Etc.

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with accounting principles generally accepted in Japan. It also includes maintenance and operation of 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, etc., management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to a going concern.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements, etc. 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, etc. As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the non-consolidated financial statements, etc. is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the way of their application and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements, etc. or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation of the non-consolidated financial statements, etc. and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the non-consolidated financial statements, etc., including the related notes thereto, and whether the non-consolidated financial statements, etc. fairly represent the underlying transactions and accounting events.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding 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, and other matters required by auditing standards.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that

are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related measures in order to eliminate or safeguards in order to reduce to the acceptable level obstruction factors.

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

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

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

Audit Report of the Audit & Supervisory Board

Audit Report

Regarding the performance of duties by the Directors for the 63rd fiscal year from January 1, 2023 to December 31, 2023, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Audit & Supervisory Board Member and hereby report as follows:

1. Auditing methods and content of audits by Audit & Supervisory Board Members and the Audit & Supervisory Board

- (1) We established auditing policies, allocation of duties and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.
- (2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the internal auditing and other employees, made efforts to establish the environment for collecting information and auditing, and conducted the audit by the following methods.
 - (i) Each Audit & Supervisory Board Member participated in the meetings of the Board of Directors and other important meetings, received reports from people such as the Directors and employees regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the headquarters and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, and received business reports from subsidiaries as necessary.
 - (ii) We periodically received reports from Directors, employees and others, requested explanations as necessary, and expressed opinions, regarding the resolution of the Board of Directors on the establishment of following systems (Internal Control System) and the status of operation of the organized system based on such resolution, both of which are described in the business report; i) the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and ii) the system stipulated in Article 100, Paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act, which are necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries.
 - (iii) We monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, and we received reports from the Accounting Auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that “System for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Regulation on Corporate Accounting) is organized in accordance with the “Quality Management Standards Regarding Audits” (Business Accounting Council) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the business report and the accompanying detailed statements, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and the accompanying detailed statements as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of equity, and notes to consolidated financial statements) for this fiscal year.

2. Results of audit

(1) Results of audit of business report

- (i) We confirm that the business report and the accompanying detailed statements fairly represent the Company's conditions in accordance with the related laws and regulations and Articles of Incorporation.
- (ii) We have found no significant evidence of a wrongful act or violation of related laws and regulations nor the Articles of Incorporation with regard to the execution of duties by the Directors.
- (iii) We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is proper. In addition, we have found no matters on which to remark in regard to the description of the business report and the execution of duties by the Directors regarding the Internal Control System.

(2) Results of audit of non-consolidated financial statements and the accompanying supplementary schedules

We confirm that the methods and results of the audit conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC, are proper.

(3) Results of audit of consolidated financial statements

We confirm that the methods and results of the audit conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC, are proper.

February 14, 2024

Audit & Supervisory Board, OTSUKA CORPORATION

Audit & Supervisory Board Member Tatsumi Murata (Seal)

Outside Audit & Supervisory Board Member Kazuhiko Nakai (Seal)

Outside Audit & Supervisory Board Member Etsuo Hada (Seal)

Outside Audit & Supervisory Board Member Katsumasa Minagawa (Seal)

System to Ensure the Properness of Operations and Its Operational Status

(1) System to ensure the properness of operations

At the Board of Directors, the Company established the basic policy on systems to ensure that the execution of duties by the directors complies with laws, regulations, and the Articles of Incorporation, and other systems required by the Ministry of Justice Ordinance to ensure the properness of operations of a corporation and a corporate group, which consists of said corporation and its subsidiaries (the “Basic Policy on Internal Control System”). (Final revision: April 13, 2020)

(i) System to Ensure that Execution of Duties of Directors and Employees Complies with Laws, Regulations, and the Articles of Incorporation of the Company

Directors take the lead to be an example of complying with and promoting the Mission Statement, which serves as the basis of a compliance system.

Directors and employees strive to enhance a compliance system by raising awareness of the compliance system through continued compliance education, improving operation by performing internal audits, and appropriately applying the internal reporting system to ensure compliance with laws and regulations on the execution of duties and the Articles of Incorporation.

(ii) System for Retaining and Managing Information Regarding the Execution of Duties by Directors

Information on the execution of duties by directors (documents or electromagnetic records) and other important information is properly retained and managed in accordance with laws, regulations, and internal rules.

(iii) Regulations and Other Systems for the Management of Risk of Loss

The Company presses ahead with establishing a risk management system in line with internal rules to identify, analyze, and assess risk impacting on management performance and financial conditions, etc., and take appropriate measures.

If unforeseen circumstances occur, the Company establishes a response headquarters, collects risk information, and takes prompt and proper response measures.

(iv) System to Ensure Efficient Execution of Duties by Directors

The Board of Directors is held once a month in principle to carry out deliberations on, pass resolutions of important matters related to management, and supervise business execution. In addition, the Board of Directors sets clear guidelines on holding committees aimed at enhancing the properness of decision-making and bringing agenda before the committees, and provides details of the business execution in “Rules of Duties and Authorities” and “Rules of Segregation of Duties” to enhance efficiency.

(v) System to Ensure the Properness of Operations by the Corporate Group Comprised of the Company and Its Subsidiaries

(a) System for reporting matters related to the execution of duties by directors, etc. of subsidiaries to the Company

The Company holds the Group Management Committee to grasp the management status of consolidated subsidiaries and the progress towards achieving profit targets. The Company has established the Special Corporate Officer System under which the President & Chief Executive Officers of consolidated subsidiaries are appointed as the Special Corporate Officers to promote thorough compliance in the consolidated

subsidiaries and more robust corporate governance, and are requested to report on the status of business execution to the Board of Directors of the Company or President & Chief Executive Officer of the Company as necessary.

- (b) Regulations and other systems for the management of risk of loss of subsidiaries
The Board of Directors of consolidated subsidiaries identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., and instructs to take appropriate measures. At the Group Management Committee, information on risks identified by consolidated subsidiaries is shared to detect risks promptly and prevent the risks from materializing. If unforeseen circumstances occur, the Company establishes a response headquarters within the Company, collects risk information, and takes prompt and proper response measures in cooperation with the consolidated subsidiary.
- (c) System to ensure efficient execution of duties by directors, etc. of subsidiaries
Consolidated subsidiaries formulate annual plans aligned with the group's policies while ensuring their management's autonomy and independence. Each Company's targets and responsibilities are clarified, and variance between budget and the actual result is analyzed to achieve performance targets for the period. Consolidated subsidiaries establish the Rules of Board of Directors, hold the Board of Directors, deliberate on and resolve important matters concerning corporate management and supervise the status of business execution. In addition, various internal rules provide the details of business execution to enhance efficiency.
- (d) System to ensure that execution of duties of directors and employees of subsidiaries complies with laws, regulations, and the Articles of Incorporation of the Company
Consolidated subsidiaries ensure the properness of operations by exerting a self-corrective function through business execution in accordance with the Mission Statement. Consolidated subsidiaries raise awareness through continued compliance education, improve operation by establishing the Office of Internal Auditors in each Company, and aim to improve the compliance system with the appropriate implementation of the internal reporting system established by the Company common for all consolidated subsidiaries, to ensure compliance with laws and regulations on the execution of duties and the Articles of Incorporation.
- (e) Other systems to ensure the properness of operations by the corporate group comprised of the Company and its subsidiaries
The Office of Auditors of the Company receives reports on the results of internal audits performed by the Office of Internal Auditors established in each consolidated subsidiary, and conducts regular audits at each consolidated subsidiary in order to audit the status of complying with laws, regulations, and rules, and gives necessary instructions.
- (vi) **Matters Concerning Employees to Assist Duties of Audit & Supervisory Board Members When Such Board Members Request the Assignment of Such Employees**
With a request from Audit & Supervisory Board Members, appropriate personnel concurrently serving as employees are selected to assist Audit & Supervisory Board Members.
- (vii) **Matters Concerning the Independence of Employees Referred to in the Previous Item from Directors and Ensuring the Effectiveness of Instructions Issued to Them by Audit & Supervisory Board Members**

Independence from Directors is ensured by obtaining prior consensus of Audit & Supervisory Board Members on decisions about matters concerning the personnel management right for employees in the preceding item.

Audit & Supervisory Board Members ensure effectiveness by establishing a system in which they give instructions directly to the employees and receive reports from the employees.

(viii) System Regarding Reporting to Audit & Supervisory Board Members

(a) System for reporting to Audit & Supervisory Board Members by directors and employees

A system enabling Audit & Supervisory Board Members to receive reports on the status of business execution from directors and employees is established, and cooperation and coordination with internal departments carrying out audits are reinforced.

(b) System for reporting to Audit & Supervisory Board Members by Directors, Audit & Supervisory Board Members and employees of subsidiaries who execute business operations, or those who have received reports from the said persons

When those who receive reports from Directors, Audit & Supervisory Board Members, and employees or these personnel executing business of each subsidiary identify misconduct related to the execution of duties by Directors, etc., or the employees of the Company and its consolidated subsidiaries, any fact of violating laws and regulations or the Articles of Incorporation, and any fact that may inflict significant damage on the companies, they report such fact to Audit & Supervisory Board Members based on the importance and urgency of the fact.

(ix) System for Ensuring Reporting Persons Are Not Treated Disadvantageously for Making Reports Referred to in the Previous Item

Those who reported to Audit & Supervisory Board Members in accordance with labor regulations shall not be treated disadvantageously because of the reporting.

(x) Matters Concerning Policy on Treating Expenses or Debts Incurred by Audit & Supervisory Board Members in the Course of Executing Their Duties

When Audit & Supervisory Board Members claim advance payment of expenses, etc., referred to in Article 388 of the Companies Act, such expenses shall be paid after the Compliance Office carries out deliberations, unless it deems the expenses, etc. per such claim as unessential in executing the duties of the Audit & Supervisory Board Members.

(xi) Other Systems to Ensure Effective Audits by Audit & Supervisory Board Members

President & Chief Executive Officer exchanges opinions with Audit & Supervisory Board Members as necessary.

The Office of Auditors of the Company maintains close coordination with Audit & Supervisory Board Members to conduct investigations based on the requests of Audit & Supervisory Board Members.

(2) Overview of operational status of system to ensure the properness of operations

The Company operates as follows in accordance with the “Basic Policy of Internal Control System.”

(i) System to Ensure that Execution of Duties of Directors and Employees Complies with Laws, Regulations, and the Articles of Incorporation of the Company

The Company makes it compulsory for Directors and employees to receive training in the Mission Statement and compliance to ensure that they abide by the laws and regulations, and internal rules, etc.

The Office of Auditors of the Company audits, on a regular and required basis, appropriateness of policies, plans, and procedures, the effectiveness of business operation, and compliance with laws and regulations, for overall business activities for the entire group of the Company. The Office of Auditors also gives specific advice and recommendations to improve operations and improve awareness and reports to Directors and Audit & Supervisory Board Members.

Under the internal reporting system, the Company establishes an external contact point and a contact point independent from management executives, in addition to an internal contact point, thereby working to detect illegal acts and scandals early and prevent them from happening.

(ii) System for Retaining and Managing Information Regarding the Execution of Duties by Directors

Information on the execution of duties by directors (documents or electromagnetic records) and other important information are properly retained and managed by the Compliance Office in accordance with laws and regulations and internal rules.

(iii) Regulations and Other Systems for the Management of Risk of Loss

The company identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., according to internal rules and takes appropriate measures. In addition, during the current fiscal year, there was no contingency requiring the establishment of a task force.

(iv) System to Ensure Efficient Execution of Duties by Directors

The Board of Directors consists of eight members, including three outside Directors. The meeting of the Board of Directors was held 19 times during the current fiscal year to carry out deliberations on and resolve important matters requiring the resolution of the Board of Directors in accordance with the provisions of laws and regulations, and the Article of Incorporation, while supervising the execution of duties of Directors. The Board of Directors actively exchanges opinions on each proposal, ensuring the effectiveness of decision-making and supervision.

(v) System to Ensure the Properness of Operations by the Corporate Group Comprised of the Company and Its Subsidiaries

(a) System for reporting matters related to the execution of duties by directors, etc. of subsidiaries to the Company

“Group Management Meetings” were held four times during the fiscal year under review to clarify operational conditions at each Group company and make progress in achieving profit targets in addition to working to strengthen corporate governance.

- (b) Regulations and other systems for the management of risk of loss of subsidiaries**
The Board of Directors of consolidated subsidiaries identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., and takes appropriate measures. In addition, the Company has a system under which the Group Management Committee shares information on significant risks. Further, the Company has not acknowledged any significant risks requiring information-sharing during the current fiscal year.
- (c) System to ensure efficient execution of duties by directors, etc. of subsidiaries**
Consolidated subsidiaries formulate annual plans in accordance with the Group’s policy, working to achieve performance targets for the period. In addition, the consolidated subsidiaries provide the details of business execution under various internal rules, hold the Board of Directors, carry out deliberations on and resolve important matters, and supervise the status of execution of duties.
- (d) System to ensure that execution of duties of directors and employees of subsidiaries complies with laws, regulations, and the Articles of Incorporation of the Company**
The consolidated subsidiaries make it compulsory for Directors and employees to receive training in the Mission Statement and compliance to ensure that they abide by the laws, regulations, and internal rules, etc.
The Office of Internal Auditors of the consolidated subsidiaries performs audits of overall business activities on a regular and required basis, offering specific advice and recommendations to improve operations and raise awareness and reports to President & Chief Executive Officer and Audit & Supervisory Board Members.
The consolidated subsidiaries make known to Directors and employees the internal reporting system common to the subsidiaries that the Company establishes.
- (e) Other systems to ensure the properness of operations by the corporate group comprised of the Company and its subsidiaries**
The Office of Auditors of the Company receives reports on the result of internal audits performed by each group company from the Office of Internal Auditors of its consolidated subsidiaries and advises as necessary.
- (vi) Matters Concerning Employees to Assist Duties of Audit & Supervisory Board Members When Such Board Members Request the Assignment of Such Employees**
The Compliance Office is in charge of assisting in the duties of Audit & Supervisory Board Members.
- (vii) Matters Concerning the Independence of Employees Referred to in the Previous Item from Directors and Ensuring the Effectiveness of Instructions Issued to Them by Audit & Supervisory Board Members**
The Compliance Office is an organization established within the Business Administration Headquarters and maintains independence by assisting in the duties of Audit & Supervisory Board Members based on instructions directly received from Audit & Supervisory Board Members.

(viii) System Regarding Reporting to Audit & Supervisory Board Members

(a) System for reporting to Audit & Supervisory Board Members by directors and employees

Audit & Supervisory Board Members receive reports on the status of business execution by Directors by attending the Board of Directors meetings. In addition, Audit & Supervisory Board Members receive reports on the status of business execution by attending important meeting bodies such as the Executive Board Meeting, and share important matters with non-standing Audit & Supervisory Board Members as needed.

(b) System for reporting to Audit & Supervisory Board Members by Directors, Audit & Supervisory Board Members and employees of subsidiaries who execute business operations, or those who have received reports from the said persons

When those who receive reports from Directors, Audit & Supervisory Board Members, and employees or these personnel executing business of each subsidiary identify misconduct related to the execution of duties by Directors, etc., or the employees of the Company and its consolidated subsidiaries, any fact of violating law and regulations or the Article of Incorporation, and any fact that may inflict significant damages on the companies, we have a system in place so that they report such a fact to Audit & Supervisory Board Members based on the importance and urgency of the fact. During the fiscal year under review, there were no facts to be reported to Audit & Supervisory Board Members.

(ix) System for Ensuring Reporting Persons Are Not Treated Disadvantageously for Making Reports Referred to in the Previous Item

The Company has put in place a system under which when a whistle-blower is unfairly treated because they reported to Audit & Supervisory Board Members, Audit & Supervisory Board Members and a person responsible and staff for internal reporting under the internal reporting system consult the Reward and Punishment Committee about disciplinary measures against the person who mistreated the whistle-blower, in accordance with office regulations, and take appropriate measures based on the decision that is made. Meanwhile, no one has treated whistle-blowers unfairly and been subject to disciplinary punishment during the current fiscal year.

(x) Matters Concerning Policy on Treating Expenses or Debts Incurred by Audit & Supervisory Board Members in the Course of Executing Their Duties

The Company has put in place a system under which when Audit & Supervisory Board Members claim advance payment of expenses, etc., referred to in Article 388 of the Companies Act, such expenses are paid after the Compliance Office carries out deliberations. During the current fiscal year, no claim for the prepayment of expenses was made by Audit & Supervisory Board Members, and the Compliance Office promptly processes claims for expenses paid in advance by Audit & Supervisory Board Members.

(xi) Other Systems to Ensure Effective Audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members exchange opinions with the President & Chief Executive Officer as necessary.

Audit & Supervisory Board conducts hearings for the execution of duties by President & Chief Executive Officers of consolidated subsidiaries as necessary.

Audit & Supervisory Board Members and the Office of Auditors of the Company hold a regular meeting once a month in principle to exchange information on the audit plan, audit status, and status of business execution and take action as necessary.

Consolidated Statement of Changes in Equity (from January 1, 2023 to December 31, 2023)
(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,374	16,254	288,660	(140)	315,149
Changes during period					
Dividends of surplus			(23,700)		(23,700)
Profit attributable to owners of parent			47,448		47,448
Reversal of revaluation reserve for land			(871)		(871)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	–	–	22,876	(0)	22,876
Balance at end of period	10,374	16,254	311,537	(141)	338,025

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	6,835	(26)	(6,141)	200	3,371	4,239	3,343	322,732
Changes during period								
Dividends of surplus								(23,700)
Profit attributable to owners of parent								47,448
Reversal of revaluation reserve for land								(871)
Purchase of treasury shares								(0)
Net changes in items other than shareholders' equity	588	(8)	871	88	(693)	847	494	1,342
Total changes during period	588	(8)	871	88	(693)	847	494	24,218
Balance at end of period	7,424	(35)	(5,269)	289	2,678	5,087	3,838	346,950

Note: All amounts less than one million yen are rounded down.

Notes to Consolidated Financial Statements

1. Notes Regarding Basis of Preparation of Consolidated Financial Statements

(1) Disclosure of scope of consolidation

(i) Consolidated subsidiaries

Number of consolidated subsidiaries 4

Names of major consolidated subsidiaries Networkworld Corporation

(ii) Unconsolidated subsidiaries

Names of major unconsolidated subsidiaries Otsuka Auto Service Co., LTD.

Reason for exclusion from scope of consolidation

Unconsolidated subsidiaries are excluded from the scope of consolidation as the scale of each unconsolidated subsidiary is small and their aggregated total assets, net sales and profit (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., do not have any material impact on consolidated financial statements.

(2) Disclosure about application of the equity method

(i) Unconsolidated subsidiaries and affiliates accounted for using equity method

Number of unconsolidated subsidiaries and affiliates accounted for using equity method

3

Names of major companies LION OFFICE PRODUCTS CORP.

Companies whose balance sheet date differs from the consolidated balance sheet date use financial statements prepared as of a balance sheet date closest to the consolidated balance sheet date, and material transactions arising between the balance sheet date and the consolidated balance sheet date are adjusted as required under the application of the equity method.

(ii) Unconsolidated subsidiaries and affiliates not accounted for using equity method

Names of major companies Otsuka Auto Service Co., LTD.

Reasons for not accounted for using equity method

Unconsolidated subsidiaries and affiliates not accounted for using the equity method are excluded from the scope of the application of the equity method as each of them is small in scale and does not have any material impact on consolidated financial statements in terms of its profit (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., even if it is excluded from the scope of the application of the equity method, and they are not material in aggregate either.

(3) Disclosure about fiscal years, etc. of consolidated subsidiaries

The balance sheet date of all consolidated subsidiaries is the same as the consolidated balance sheet date.

(4) Accounting policies

(i) Accounting policy for measuring significant assets

Available-for-sale securities

Other than securities without a market price

Stated at market (the valuation difference is accounted for as a separate component of net assets and the cost of sales is calculated by using the moving average method)

Securities without a market price Stated at cost determined by the moving average method

Investments in investment limited partnerships and those of a similar nature (those deemed to be securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act)

A net amount corresponding to the equity interest, based on the latest financial statements available pursuant to the account closing date stipulated in a partnership agreement, is recorded.

Derivatives

Stated at fair value

Inventories

Inventories held for sale in the ordinary course of business

Stated at cost (with writing down of the carrying amount based on any decreased profitability)

Merchandise

Mainly moving average method

Work in process

Identified cost method

Raw materials and supplies

Mainly moving average method

(ii) Accounting policy for depreciation of significant assets

Property, plant and equipment (excluding leased assets) Declining balance method

However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings and structures acquired on and after April 1, 2016. Major useful lives are as follows:

Buildings and structures 15 to 50 years

Other 4 to 10 years

Intangible assets (excluding leased assets)

Software for sale

Software for sales is amortized in the amount corresponding to the sales amount for the current fiscal year based on the estimated sales amount. However, the amortized amount for each period is not less than the evenly divided amount over a remaining useful life (an estimated useful life of three years or less).

Software for internal use

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

Leased assets

Leased assets related to finance lease transactions that do not transfer ownership

Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over a lease period of the useful life with a residual value of zero.

(iii) Accounting policy for significant provisions

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

Provision for bonuses

Provision for bonuses is recorded at the amount the Company should bear for the current fiscal year, out of the estimated payment amount, to provide for employees' bonus payment.

Provision for retirement benefits for directors

Provision for retirement benefits for directors is recorded at the payment amount required as of the end of the consolidated fiscal year based on internal rules, to provide for expenditures of retirement benefits for directors (and other officers).

(iv) Accounting policy for recognition of significant revenues and expenses

The Company and its consolidated subsidiaries consider "selecting and making a proposal on products and services according to challenges faced by a customer by capitalizing on knowledge accumulated within the Company Group to provide an environment in which they can be utilized by the customer" as a basic value added in carrying out its businesses. With this thinking as a basis for recognizing revenues, revenues are recognized in each segment of the System Integration business encompassing business areas from building to launching information systems, and the Service and Support business covering the business area of providing support after the system launch, as follows.

System Integration Business

With respect to the sales of SI-related products that are included in the System Integration Business, we identify procuring copiers, PCs, servers, software, etc. from suppliers and providing to customers as performance obligations, and recognize revenues when the control of a relevant asset is transferred to the customer.

However, for domestic sales transactions of goods shipped from the distribution centers of the Company and its consolidated subsidiaries, revenue is recognized at the time of shipment because the period between shipment of such assets and the transfer of control to the customer is a normal period of time. For certain transactions where other parties are involved, it is judged that the performance obligations of the Company and its consolidated subsidiaries are to make arrangements for the provision of a product or service by such other parties and that we engage in the transactions as an agent. Accordingly, revenues are recognized at a net amount.

With respect to consigned software development included in the System Integration Business, performance obligations are identified for each of four phases—1. requirements definition, 2. design, 3. construction, and 4. operation setup and migration—and contracts are entered into by phase, subject to passing an acceptance inspection. Phases of 2. design and 3. construction among them will have the asset value increased as the obligations under a contract are performed, and have the customer acquire more control of the relevant asset as its value increases. Accordingly, revenues are recognized according to the degree of completion. In measuring the degree of completion, the input method based on the percentage of costs actually incurred to the estimated total costs as of the end of the period is used. However, for contracts that are very short-dated among those that fall under the above, revenues are recognized when performance obligations are fully satisfied.

For composite contracts as represented by contracts where SI-related products are customized to customers' specifications, since products or services provided are not unique to the Company and its consolidated subsidiaries, and customers can purchase individually or combine with other resources easily, it is judged that they are individual performance obligations. Accordingly, revenues are recognized at respective points of time as described above.

Service and Support Business

For the sales of supplies (chiefly “tanomail” business (a mail-order service that quickly delivers everything from consumables such as copy paper and toner to stationery and office supplies)) included in the Service and Support Business, the procurement of office equipment-related consumables and stationary products from suppliers and the provision to customers are recognized as performance obligations. Those transactions are mostly sales transactions in Japan for which shipment is made from the Company's distribution centers, and revenues are recognized at the time of shipment since the period from the shipment of a relevant asset to the transfer of control to a customer is within a normal range. Further, with regards to points granted in accordance with the points system operated by the Company, points granted are recognized as performance obligations and revenues are deferred with estimated number of points to be forfeited and other factors taken into account. As for maintenance transactions, etc. included in the Service and Support Business, the provision of maintenance and support as service for equipment and software, etc. installed in the System Integration Business is recognized as performance obligations. Performance obligations are satisfied over a certain period of time in some of those transactions, and according to the volume of service provided in other transactions. Revenues are recognized according to those terms. However, for certain services such as copier maintenance and telecommunication where other parties are involved, it is judged that the performance obligations of the Company and its consolidated

subsidiaries are to make arrangements for the provision of a service by such other parties and that we engage in the transactions as an agent. Accordingly, revenues are recognized at a net amount.

- (v) Accounting policy for translation of significant foreign currency assets or liabilities into Japanese yen

Foreign-currency-denominated receivables and payables are translated into yen at the spot exchange rate as of the consolidated balance sheet date, and translation adjustment is recognized as gains or losses.

- (vi) Significant accounting policy for hedging

- 1) Accounting policy for hedging

In principle, hedging transactions are accounted for under a deferral method. Exceptional accounting method is applied to interest rate swaps that meet the requirements.

- 2) Hedging instruments and hedged items

- a. Hedging instruments: forward exchange contracts
Hedged items: future transactions in foreign currencies
- b. Hedging instruments: interest rate swaps
Hedged items: borrowings

- 3) Hedging policy

Based on internal rules of derivative transactions, the hedging policy aims to avoid fluctuation risk of exchange rates and interest rates.

- 4) Method for assessing the hedge effectiveness

The effectiveness of hedging is assessed based on the fluctuation amount, etc., of the hedging instruments and hedged items by comparing cumulative fluctuations in the market value between hedging instruments and hedged items for the period from the commencement of the hedge to a point in time of judging its effectiveness. In addition, when the critical terms of the hedging instrument and the hedged item are the same, and market fluctuation is anticipated to be fully offset, the Company omits the evaluation of effectiveness. Meanwhile, the Company omits evaluation of effectiveness for interest rate swaps accounted for under special treatment.

- (vii) Other significant matters for preparing consolidated financial statements

- Accounting policy for retirement benefits

- a. Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the consolidated fiscal year on a benefit formula basis.

- b. Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain number of years (primarily 11 years) within average remaining periods of service of employees as of the time when the past service cost was incurred.

Actuarial gains and losses are recognized, from the consolidated fiscal year following the consolidated fiscal year when they were incurred, as expense in an equally divided amount using the straight-line method over a certain number of years (primarily 12 years) within average remaining periods of service of employees as of the time when the actual gains and losses were incurred in each consolidated fiscal year.

2. Notes to Changes in Accounting Policies

(Application of the Application Guideline for Accounting Standard for Fair Value Measurement)

The Company has applied “Application Guideline for Accounting Standard for Fair Value Measurement” (ASBJ Application Guideline No. 31, June 17, 2021; hereinafter referred to as the “Fair Value Measurement Accounting Standard Application Guideline”) from the beginning of the current consolidated fiscal year. Further, in accordance with the transitional treatment set forth in Paragraph 27-

2 of the Fair Value Measurement Accounting Standard Application Guideline, the Company has prospectively applied a new accounting policy prescribed by the Fair Value Measurement Accounting Standard Application Guideline. There are no impacts on the consolidated financial statements.

3. Notes to Accounting Estimates

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

4. Notes to Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 47,089 million yen
Accumulated depreciation includes accumulated impairment loss.

(2) Notes matured at the end of the fiscal year

In the accounting treatment of notes matured at the end of the consolidated fiscal year, they were treated as having been settled on the maturity date, even though the end of the current consolidated fiscal year fell on a holiday of financial institutions.

Notes receivable - trade 478 million yen

5. Notes to Consolidated Statement of Changes in Equity

(1) Matters concerning total number of outstanding shares

(Thousands of shares)

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	190,002	-	-	190,002

(2) Matters concerning total number of treasury shares

(Thousands of shares)

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	401	0	-	401

Note: Increase in the number of treasury shares is due to purchase of shares of less than one unit.

(3) Dividends of surplus

(i) Dividends paid

Matters concerning dividends resolved by the 62nd Annual General Meeting of Shareholders held on March 29, 2023

Total amount of dividends 23,700 million yen
Dividend per share 125 yen
Record date December 31, 2022
Effective date March 30, 2023

(ii) Of the dividends whose record date belongs to the current consolidated fiscal year, the following are those whose effective date of the dividends belongs to the following consolidated fiscal year.

The Company will submit the following to the 63rd Annual General Meeting of Shareholders scheduled to be held on March 27, 2024.

Total amount of dividends 25,596 million yen
Source of dividends Retained earnings
Dividend per share 135 yen
Record date December 31, 2023
Effective date March 28, 2024

(4) Matters concerning share acquisition rights at end of the current consolidated fiscal year
Not applicable.

6. Notes Regarding Financial Instruments

(1) Status of financial instruments

(i) Policy on financial instruments

The OTSUKA Group manages temporary surplus funds with highly secure financial assets and finances working capital through bank loans.

(ii) Description of financial instruments and their risks, and risk management system

Notes receivable - trade and accounts receivable - trade, which are trade receivables, are exposed to the credit risk of customers. The Company identifies promptly and reduces concerns over the collection of trade receivables caused by deterioration of financial conditions, etc., through comprehensive management of business partners' credit and regular management of collection date and account balance to minimize such risks.

Investment securities are mainly stocks of companies, etc., with which the Company has business relationships. Listed stocks are exposed to the fluctuation risk of market price; however, the Company ensures collectability and reduces concerns over impairment losses by regularly analyzing and grasping fair values and the financial condition, etc., of issuers.

Notes and accounts payable - trade, accounts payable - trade, and electronically recorded obligations - operating, which are trade payables, are due within approximately three months. Long-term borrowings and short-term borrowings are mainly for financing working capital.

In addition, monetary liabilities such as notes and accounts payable - trade, electronically recorded obligations - operating, short-term borrowings, income taxes payable, are exposed to liquidity risk, which is managed by formulating financing plans, among other methods. Long-term borrowings that are exposed to interest fluctuation risk are hedged using interest rate swap trades.

Derivative transactions consist of interest rate swaps and exchange contract trades of some consolidated subsidiaries, and the derivative transactions are executed and managed in accordance with internal rules prescribing trading authority.

(2) Fair values of financial instruments

Carrying amount, fair value, and their difference as of December 31, 2023, are as follows.

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Investment securities ^(*2)			
1) Available-for-sale securities	14,020	14,020	-
2) Shares of affiliates	1,593	4,510	2,916
Total assets	15,614	18,531	2,916
(2) Long-term borrowings	1,700	1,704	4
Total liabilities	1,700	1,704	4
Derivatives ^(*3)			
Derivative transaction to which hedge accounting is not applied	(9)	(9)	-
Derivative transaction to which hedge accounting is applied	(61)	(61)	-
Total derivatives	(71)	(71)	-

(*1) "Cash and deposits," "Notes and accounts receivable - trade, and contract assets," "Notes and accounts payable - trade," "Electronically recorded obligations - operating," "Short-term borrowings," and "Income taxes payable" are omitted since they are cash and are scheduled to be settled in a short period of time, causing the fair value to approximate the book value.

(*2) Securities without a market price are not included in "(1) Investment securities." The carrying amounts of those financial instruments on the consolidated balance sheet are as follows.

(Millions of yen)

Class	Carrying amount
Shares not listed	10,669

Further, investments in partnerships and similar entities which are recorded at a net amount corresponding to the equity interest on the consolidated balance sheet are not shown pursuant to Paragraph 24-16 of the Fair Value Measurement Accounting Standard Application Guideline. The carrying amount of such investments on the consolidated balance sheet is ¥22 million.

(*3) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in parentheses.

(3) Information on breakdown, etc. by appropriate category of fair values of financial instruments

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value measured by the market price of an asset or liability in active markets among the observable inputs

Level 2: Fair value measured by observable inputs other than Level 1 inputs

Level 3: Fair value measured by unobservable inputs

If multiple inputs are used with a significant impact on fair value measurement, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input.

(i) Financial assets and liabilities recorded at fair value on the consolidated balance sheet

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	14,020	-	-	14,020
Total assets	14,020	-	-	14,020
Derivatives				
Currency-related	-	71	-	71
Total liabilities	-	71	-	71

(ii) Financial instruments other than those that are recorded at fair value on the consolidated balance sheet

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Shares of affiliates	4,510	-	-	4,510
Total assets	4,510	-	-	4,510
Long-term borrowings	-	1,704	-	1,704
Total liabilities	-	1,704	-	1,704

Note: Description of the valuation techniques and inputs used in the fair value measurement

Investment securities

The fair value of listed shares is measured using quoted prices. Listed shares are traded in active markets and their fair value is categorized within Level 1.

Derivatives

Forward exchange contracts are stated at a price provided by financial institutions which are counterparties, and classified into Level 2 fair value.

Long-term borrowings

The fair value of long-term borrowings is determined by using discounted cash flow based on the total amount of the principal and interests and an interest rate that takes into consideration the remaining tenor of the relevant debt and credit spread, and is classified into Level 2 fair value.

7. Notes Regarding Revenue Recognition

- (1) Information on the breakdown of revenues arising from contracts with customers
Information on the breakdown of revenues by main goods or services is as follows.

(Millions of yen)

	Reportable segment		Total
	System Integration Business	Service and Support Business	
SI-related products	572,117	-	572,117
Consigned software development, etc.	58,068	-	58,068
Supplies	-	185,487	185,487
Maintenance, etc.	-	161,697	161,697
Revenues arising from contracts with customers	630,185	347,185	977,370
Other revenues	-	-	-
Net sales to external customers	630,185	347,185	977,370

Note: “SI-related products” represent the sales of computers, copiers, communications equipment, software, and others.

“Consigned software, etc.” include the provision of consigned software development, network construction, and transport and installation work.

“Supplies” represent the sales of office supplies and stationary products.

“Maintenance, etc.” include the provision of hardware and software maintenance, telephone support and outsourcing service.

- (2) Underlying information to understand revenues arising from contracts with customers

Underlying information to understand revenues is as per the description in “1. Notes Regarding Basis of Preparation of Consolidated Financial Statements, (4) Accounting policies, (iv) Accounting policy for recognition of significant revenues and expenses.”

- (3) Information on the relationship between the satisfaction of performance obligations pursuant to contracts with customers and the cash flows arising from relevant contracts, as well as the amount and timing of revenues expected to be recognized in the following consolidated fiscal years from contracts with customers that exist as at the end of the consolidated fiscal year

- (i) Balance, etc. of contract assets and contract liabilities

(Millions of yen)

	Current fiscal year
Claims arising from contracts with customers (balance at beginning of period)	151,484
Claims arising from contracts with customers (balance at end of period)	154,273
Contract assets (balance at beginning of period)	920
Contract assets (balance at end of period)	995
Contract liabilities (balance at beginning of period)	16,139
Contract liabilities (balance at end of period)	16,443

Contract assets are rights to consideration received in exchange for the satisfied portion of performance obligations in contract software development included in the System Integration business at the beginning and end of the current fiscal year, excluding claims arising from contracts with customers. When the performance obligation is fully satisfied, conditions other than the passage of time are resolved, and the corresponding contract asset amount transfers to claims arising from contracts with customers. Contract liabilities are the portion of consideration received from customers in excess of the amount already recognized as revenue in transactions in which maintenance and support is provided as a service, primarily included in the Service and Support business. Upon provision of these services, the performance obligation is satisfied and the contract liabilities transfer to revenue.

The amount of revenues that was included in the balance of contract liabilities at the beginning of the period out of the amount recognized during the current consolidated fiscal year is ¥10,708 million.

(ii) Transaction price allocated to remaining performance obligations

The Company and its consolidated subsidiaries apply the practical expedient in noting the transaction price allocated to the remaining performance obligations, and omit this information since there are no material contracts with an initial expected contract period exceeding one year. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

8. Notes on Per Share Information

(1) Net assets per share	1,809.66 yen
(2) Earnings per share (EPS)	250.26 yen

9. Notes on Significant Subsequent Events

At the Board of Directors meeting held on February 1, 2024, the Company resolved to implement a stock split as below.

(1) Purpose of the stock split

It is intended to develop an environment that facilitates investors' making investment by reducing the amount required for each investment unit of the Company's shares, thereby expanding the investor base and improving the liquidity of the shares.

(2) Overview of the stock split

(i) Method of the split

With a record date of March 31, 2024, the shares of common stock held by shareholders listed or recorded in the final shareholder registry as of the said date will be split based on the ratio of two-for-one.

(ii) Number of the shares to be increased due to the split

Total number of outstanding shares before the stock split	190,002,120
Number of the shares to be increased due to this split	190,002,120
Total number of outstanding shares after the stock split	380,004,240
Total number of authorized shares after the stock split	1,354,320,000

(iii) Schedule

Record date announced on	March 17, 2024
Record date	March 31, 2024
Effective date	April 1, 2024

(3) Impact on per share information

Under the hypothetical assumption that the stock split had been implemented at the beginning of the consolidated fiscal year under review, per share information for the consolidated fiscal year would have been as follows.

(i) Net assets per share	904.83 yen
(ii) Earnings per share (EPS)	125.13 yen

Statement of changes in equity (from January 1, 2023 to December 31, 2023)

(Millions of yen)

	Shareholders' equity									
	Share capital	Capital surplus		Legal retained earnings	Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus		Other retained earnings			Total retained earnings		
					Reserve for tax-purpose reduction to promote open innovation	General reserve	Retained earnings brought forward			
Balance at beginning of period	10,374	16,254	16,254	2,593	37	67,350	186,540	256,521	(140)	283,010
Changes during period										
Dividends of surplus							(23,700)	(23,700)		(23,700)
Profit							43,150	43,150		43,150
Reversal of reserve for tax-purpose reduction to promote open innovation					(37)		37	-		-
Reversal of revaluation reserve for land							(871)	(871)		(871)
Purchase of treasury shares									(0)	(0)
Net changes in items other than shareholders' equity										
Total changes during period	-	-	-	-	(37)	-	18,615	18,578	(0)	18,577
Balance at end of period	10,374	16,254	16,254	2,593	-	67,350	205,156	275,099	(141)	301,588

(Millions of yen)

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of period	6,726	(6,141)	584	283,595
Changes during period				
Dividends of surplus				(23,700)
Profit				43,150
Reversal of reserve for tax-purpose reduction to promote open innovation				-
Reversal of revaluation reserve for land				(871)
Purchase of treasury shares				(0)
Net changes in items other than shareholders' equity	563	871	1,435	1,435
Total changes during period	563	871	1,435	20,013
Balance at end of period	7,290	(5,269)	2,020	303,608

Note: All amounts less than one million yen are rounded down.

Notes to Financial Statements

1. Notes to Significant Accounting Policies

- (1) Accounting policy for measuring assets
 - (i) Accounting policy for measuring securities
 - Shares of subsidiaries and affiliates Stated at cost determined by the moving average method
 - Available-for-sale securities
 - Other than securities without a market price Stated at market (the valuation difference is accounted for as a separate component of net assets and the cost of sales is calculated by using the moving average method)
 - Securities without a market price Stated at cost determined by the moving average method
 - Investments in investment limited partnerships and those of a similar nature (those deemed to be securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act)
A net amount corresponding to the equity interest, based on the latest financial statements available pursuant to the account closing date stipulated in a partnership agreement, is recorded.
 - (ii) Accounting policy for measuring derivatives
 - Derivatives Stated at fair value
 - (iii) Accounting policy for measuring inventories
 - Inventories held for sale in the ordinary course of business Stated at cost (with writing down of the carrying amount based on any decreased profitability)
 - Merchandise Moving average method
 - Work in process Identified cost method
 - Raw materials and supplies Mainly moving average method
- (2) Accounting policy for depreciation of assets
 - (i) Property, plant and equipment (excluding leased assets) Declining balance method
 - However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings and structures acquired on and after April 1, 2016.
 - Major useful lives are as follows:

Buildings	15 to 50 years
Other	4 to 20 years
 - (ii) Intangible assets (excluding leased assets)
 - Software for internal use Software for internal use is amortized over the useful life (five years) using the straight-line method.
 - (iii) Leased assets
 - Leased assets related to finance lease transactions that do not transfer ownership
 - Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over a lease period of the useful life with a residual value of zero.
- (3) Accounting policy for provisions
 - (i) Allowance for doubtful accounts
 - To prepare for credit losses on receivables, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.
 - (ii) Provision for bonuses
 - Provision for bonuses is recorded at the amount the Company should bear for the fiscal year under review, out of the estimated payment amount, to provide for employees' bonus payment.
 - (iii) Provision for retirement benefits
 - Provision for retirement benefits is recorded based on the estimated amount of retirement benefit obligation and pension assets at the end of the fiscal year under review.

a. Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year on a benefit formula basis.

b. Method of amortizing actuarial gains and losses cost

Actuarial gains and losses are recognized, from the fiscal year following the fiscal year when they were incurred, as expense in an equally divided amount using the straight-line method over a certain number of years (12 years) within average remaining periods of service of employees as of the time when the actual gains and losses were incurred in each fiscal year.

(iv) Provision for retirement benefits for directors

Provision for retirement benefits for directors is recorded at the payment amount required as of the end of the fiscal year based on internal rules, to provide for expenditures of retirement benefits for directors (and other officers).

(4) Accounting policy for recognition of revenues and expenses

The Company considers “selecting and making a proposal on products and services according to challenges faced by a customer by capitalizing on knowledge accumulated within the Company to provide an environment in which they can be utilized by the customer” as a basic value added in carrying out its businesses. With this thinking as a basis for recognizing revenues, revenues are recognized in each segment of the System Integration business encompassing business areas from building to launching information systems, and the Service and Support business covering the business area of providing support after the system launch, as follows.

System Integration Business

With respect to the sales of SI-related products that are included in the System Integration Business, we identify procuring copiers, PCs, servers, software, etc. from suppliers and providing to customers as performance obligations, and recognize revenues when the control of a relevant asset is transferred to the customer.

However, for domestic sales transactions of goods shipped from the distribution centers of the Company, revenue is recognized at the time of shipment because the period between shipment of such assets and the transfer of control to the customer is a normal period of time. For certain transactions where other parties are involved, it is judged that the performance obligations of the Company are to make arrangements for the provision of a product or service by such other parties and that we engage in the transactions as an agent. Accordingly, revenues are recognized at a net amount.

With respect to consigned software development included in the System Integration Business, performance obligations are identified for each of four phases—1. requirements definition, 2. design, 3. construction, and 4. operation setup and migration—and contracts are entered into by phase, subject to passing an acceptance inspection. Phases of 2. design and 3. construction among them will have the asset value increased as the obligations under a contract are performed, and have the customer acquire more control of the relevant asset as its value increases. Accordingly, revenues are recognized according to the degree of completion. In measuring the degree of completion, the input method based on the percentage of costs actually incurred to the estimated total costs as of the end of the period is used. However, for contracts that are very short-dated among those that fall under the above, revenues are recognized when performance obligations are fully satisfied.

For composite contracts as represented by contracts where SI-related products are customized to customers’ specifications, since products or services provided are not unique to the Company and customers

can purchase individually or combine with other resources easily, it is judged that they are individual performance obligations. Accordingly, revenues are recognized at respective points of time as described above.

Service and Support Business

For the sales of supplies (chiefly “tanomail” business (a mail-order service that quickly delivers everything from consumables such as copy paper and toner to stationery and office supplies)) included in the Service and Support Business, the procurement of office equipment-related consumables and stationary products from suppliers and the provision to customers are recognized as performance obligations. Those transactions are mostly sales transactions in Japan for which shipment is made from the Company’s distribution centers, and revenues are recognized at the time of shipment since the period from the shipment of a relevant asset to the transfer of control to a customer is within a normal range. Further, with regards to points granted in accordance with the points system operated by the Company, points granted are recognized as performance obligations and revenues are deferred with estimated number of points to be forfeited and other factors taken into account. As for maintenance transactions, etc. included in the Service and Support Business, the provision of maintenance and support as service for equipment and software, etc. installed in the System Integration Business is recognized as performance obligations. Performance obligations are satisfied over a certain period of time in some of those transactions, and according to the volume of service provided in other transactions. Revenues are recognized according to those terms. However, for certain services such as copier maintenance and telecommunication where other parties are involved, it is judged that the performance obligations of the Company are to make arrangements for the provision of a service by such other parties and that we engage in the transactions as an agent. Accordingly, revenues are recognized at a net amount.

(5) Other significant information for preparation of financial statements

Accounting policy for retirement benefits The accounting treatment of unrecognized actuarial gains and losses of retirement benefits differs from the one applied to the consolidated financial statements.

Accounting policy for hedging The special hedge accounting treatment is adopted for interest rate swaps that qualify for such treatment.

2. Notes to Changes in Accounting Policies

(Application of the Application Guideline for Accounting Standard for Fair Value Measurement)

The Company has applied “Application Guideline for Accounting Standard for Fair Value Measurement” (ASBJ Application Guideline No. 31, June 17, 2021; hereinafter referred to as the “Fair Value Measurement Accounting Standard Application Guideline”) from the beginning of the current fiscal year. Further, in accordance with the transitional treatment set forth in Paragraph 27-2 of the Fair Value Measurement Accounting Standard Application Guideline, the Company has prospectively applied a new accounting policy prescribed by the Fair Value Measurement Accounting Standard Application Guideline. There are no impacts on the non-consolidated financial statements.

3. Notes to Accounting Estimates

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

4. Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 46,142 million yen
Accumulated depreciation includes accumulated impairment loss.

(2) Contingent liabilities

The Company provides a debt guarantee of ¥1,707 million for purchase obligations from an affiliated company, Networld Corporation.

(3) Notes matured at the end of the fiscal year

In the accounting treatment of notes matured at the end of the fiscal year, they were treated as having been settled on the maturity date, even though the end of the current fiscal year fell on a holiday of financial institutions.

Notes receivable - trade 477 million yen

(4) Monetary claims and monetary debts to/from subsidiaries and affiliates

(i) Short-term monetary claims 1,668 million yen

(ii) Short-term monetary debts 15,341 million yen

5. Notes to Statements of Income

Total transactions with subsidiaries and affiliates

Operating transactions

Net sales 6,994 million yen

Purchase 43,258 million yen

Selling, general and administrative expenses 6,352 million yen

Non-operating transactions 2,723 million yen

6. Notes to Statement of Changes in Equity

Matters concerning total number of treasury shares

(Thousands of shares)

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	401	0	-	401

Note: Increase in the number of treasury shares is due to purchase of shares of less than one unit.

7. Notes Regarding Tax Effect Accounting

Breakdown of deferred tax assets and deferred tax liabilities by major causes

Deferred tax assets

(Millions of yen)

Allowance for doubtful accounts 67

Accrued business office tax 654

Provision for bonuses 1,216

Provision for retirement benefits 2,104

Provision for retirement benefits for directors 152

Impairment losses 1,174

Software development expenses 2,033

Other 2,477

Subtotal 9,881

Valuation allowance (26)

Total 9,855

Deferred tax liabilities

Valuation difference on available-for-sale securities (3,217)

Other (5)

Total (3,222)

Net deferred tax assets 6,632

8. Notes Regarding Transactions with Related Parties

Subsidiaries and affiliates

Attribute	Names of companies	Share capital (Millions of yen)	Description of business	Voting rights held (%)	Relationship with related parties	Description of transactions	Transaction amount (Millions of yen)	Account	Balance at end of period (Millions of yen)
Subsidiary(ies)	Networld Corporation	585	Sales and technical support for network related equipment	(Ownership) Direct 81.5	Purchase of the Company's products	Purchase of products	23,327	Accounts payable - trade	2,851

Transaction conditions and policies to decide transaction conditions, etc.

The Company decides to purchase products under the same terms and conditions as general terms and conditions by taking into account market prices and other factors.

9. Notes Regarding Revenue Recognition

Underlying information to understand revenues

As per the description in "1. Notes to Significant Accounting Policies (4) Accounting policy for recognition of revenues and expenses."

10. Notes on Per Share Information

- | | |
|------------------------------|--------------|
| (1) Net assets per share | 1,601.30 yen |
| (2) Earnings per share (EPS) | 227.58 yen |

11. Notes on Significant Subsequent Events

At the Board of Directors meeting held on February 1, 2024, the Company resolved to implement stock split as below.

(1) Purpose of the stock split

It is intended to develop an environment that facilitates investors' making investment by reducing an amount required for each investment unit of the Company's shares, thereby expanding the investor base and improving the liquidity of the shares.

(2) Overview of the stock split

(i) Method of the split

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(ii) Number of the shares to be increased due to the split

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Total number of authorized shares after the stock split	1,354,320,000

(iii) Schedule

Record date announced on	March 17, 2024
Record date	March 31, 2024
Effective date	April 1, 2024

(3) Impact on per share information

Under the hypothetical assumption that the stock split had been implemented at the beginning of the fiscal year under review, per share information for the fiscal year would have been as follows.

- | | |
|-------------------------------|------------|
| (i) Net assets per share | 800.65 yen |
| (ii) Earnings per share (EPS) | 113.79 yen |