

Annual Securities Report

(Pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

Fiscal year	from January 1, 2023
(63rd fiscal year)	to December 31, 2023

OTSUKA CORPORATION

2-18-4 Iidabashi, Chiyoda-ku, Tokyo, Japan

(E05099)

These documents have been translated from a part of the Japanese originals for reference purposes only.
In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail.

[Cover page]

[Document title]	Annual Securities Report
[Clause of stipulation]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Place of filing]	Director-General of the Kanto Local Finance Bureau
[Filing date]	March 27, 2024
[Fiscal year]	63rd fiscal year (from January 1, 2023 to December 31, 2023)
[Company name]	Kabushiki Kaisha Otsuka Shokai
[Company name in English]	OTSUKA CORPORATION
[Title and name of representative]	Yuji Otsuka, President & Chief Executive Officer
[Address of head office]	2-18-4 Iidabashi, Chiyoda-ku, Tokyo, Japan
[Telephone number]	+81-3-3264-7111
[Name of contact person]	Hironobu Saito, Managing Director & Executive Operating Officer; General Manager of Business Administration Headquarters
[Nearest place of contact]	2-18-4 Iidabashi, Chiyoda-ku, Tokyo, Japan
[Telephone number]	+81-3-3264-7111
[Name of contact person]	Hironobu Saito, Managing Director & Executive Operating Officer; General Manager of Business Administration Headquarters
[Place for public inspection]	Osaka Northern Sales Dept., OTSUKA CORPORATION (6-14-1 Fukushima, Fukushima-ku, Osaka City) Kanagawa Sales Dept., OTSUKA CORPORATION (3-3 Kinkocho, Kanagawa-ku, Yokohama City) Keiyo Sales Dept., OTSUKA CORPORATION (2-340 Katsushikacho, Funabashi City, Chiba Prefecture) Northern Kanto Sales Dept., OTSUKA CORPORATION (1-195-1 Sakuragicho, Omiya-ku, Saitama City) Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

Part 1 Company Information

I. Overview of Company

1. Key Financial Data

(1) Key financial data of group

Fiscal year		59th	60th	61st	62nd	63rd
Fiscal year-end		December 2019	December 2020	December 2021	December 2022	December 2023
Net sales	(millions of yen)	886,536	836,323	851,894	861,022	977,370
Ordinary profit	(millions of yen)	63,706	57,550	57,567	56,639	64,517
Profit attributable to owners of parent	(millions of yen)	43,497	39,309	39,927	40,022	47,448
Comprehensive income	(millions of yen)	46,186	39,410	43,702	43,911	48,066
Net assets	(millions of yen)	261,622	280,035	301,774	322,732	346,950
Total assets	(millions of yen)	461,812	471,292	486,254	523,016	561,805
Net assets per share	(yen)	1,367.76	1,462.80	1,575.64	1,684.53	1,809.66
Basic earnings per share	(yen)	229.42	207.33	210.59	211.09	250.26
Diluted earnings per share	(yen)	—	—	—	—	—
Equity ratio	(%)	56.2	58.8	61.4	61.1	61.1
Return on equity	(%)	17.8	14.6	13.9	13.0	14.3
Price earnings ratio	(times)	19.1	26.3	26.1	19.7	23.2
Net cash provided by (used in) operating activities	(millions of yen)	48,762	32,496	57,873	29,196	71,649
Net cash provided by (used in) investing activities	(millions of yen)	(7,934)	(8,716)	(9,160)	(8,355)	(21,473)
Net cash provided by (used in) financing activities	(millions of yen)	(16,221)	(20,988)	(21,957)	(23,307)	(23,839)
Cash and cash equivalents at end of period	(millions of yen)	176,198	178,988	205,746	203,274	229,615
Number of employees [average number of temporary employees not included in above]	(persons)	8,912 [1,292]	9,119 [1,329]	9,171 [1,351]	9,208 [1,431]	9,421 [1,551]

- (Notes)
1. Diluted earnings per share up to the 62nd fiscal year are not stated, as there are no dilutive shares.
 2. Diluted earnings per share for the 63rd fiscal year is not stated, as there is no dilutive effect in group's dilutive shares.
 3. The Company and its consolidated subsidiaries have applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and others from the beginning of the 62nd fiscal year. Key financial data from the 62nd fiscal year reflects these accounting standards.

(2) Key financial data of reporting company

Fiscal year		59th	60th	61st	62nd	63rd
Fiscal year-end		December 2019	December 2020	December 2021	December 2022	December 2023
Net sales	(millions of yen)	802,200	750,492	766,724	767,649	869,573
Ordinary profit	(millions of yen)	57,593	52,007	50,986	50,692	57,253
Profit	(millions of yen)	39,952	36,336	36,087	36,631	43,150
Share capital	(millions of yen)	10,374	10,374	10,374	10,374	10,374
Issued common stock	(1,000 shares)	190,002	190,002	190,002	190,002	190,002
Net assets	(millions of yen)	235,571	250,316	268,128	283,595	303,608
Total assets	(millions of yen)	426,112	431,736	443,127	473,250	504,852
Net assets per share	(yen)	1,242.46	1,320.23	1,414.17	1,495.75	1,601.30
Dividend per share [of which, interim dividend per share]	(yen)	110 [—]	115 [—]	120 [—]	125 [—]	135 [—]
Basic earnings per share	(yen)	210.72	191.65	190.33	193.20	227.58
Diluted earnings per share	(yen)	—	—	—	—	—
Equity ratio	(%)	55.3	58.0	60.5	59.9	60.1
Return on equity	(%)	17.9	15.0	13.9	13.3	14.7
Price earnings ratio	(times)	20.8	28.4	28.8	21.5	25.5
Dividend payout ratio	(%)	52.2	60.0	63.0	64.7	59.3
Number of employees [average number of temporary employees not included in above]	(persons)	7,272 [915]	7,429 [972]	7,480 [995]	7,524 [1,063]	7,713 [1,154]
Total shareholder return [Benchmark: TOPIX Total Return Index]	(%) (%)	148.5 [118.1]	187.9 [126.8]	193.2 [143.0]	153.1 [139.5]	212.5 [178.9]
Highest share price	(yen)	4,820	5,990	6,210	5,580	6,599
Lowest share price	(yen)	2,908	3,715	4,625	3,690	4,035

- (Notes)
- Diluted earnings per share are not stated, as there are no dilutive shares.
 - The dividend per share of ¥120 for the 61st fiscal year includes the 60th anniversary commemorative dividend of ¥5.
 - The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and others from the beginning of the 62nd fiscal year. Key financial data from the 62nd fiscal year reflects these accounting standards.
 - The highest and lowest share prices up to April 3, 2022 are the prices on the First Section of the Tokyo Stock Exchange, and those from April 4, 2022 are prices on the Prime Market of the Tokyo Stock Exchange.

2. History

Year & month	Event
July 1961	Founded Otsuka Shokai in Chiyoda-ku, Tokyo, as a vendor of copiers and supplies.
December 1961	Incorporated as a joint-stock company OTSUKA CORPORATION
December 1962	Opened Omori Branch in Shinagawa-ku, Tokyo, as the first foothold for business development in the Metropolitan area
March 1965	Opened Osaka Branch in Oyodo-ku (currently Kita-ku), Osaka City
July 1968	Moved the head office to Chiyoda-ku, Tokyo, following the completion of the head office building
August 1970	Commenced computer business
October 1979	Commenced sales of SMILE, a proprietary packaged business software
July 1981	Commenced sales of personal computers and dedicated word processors
May 1982	Began operating regional Office Automation (OA) Centers, commenced education business
February 1984	Commenced CAD systems business
July 1984	Established OTSUKA System Engineering (currently OSK Co., Ltd.)
February 1985	Commenced hotel business
July 1987	Commenced network business
April 1990	Commenced Total α Service (currently the “tayoreru” maintenance service), a membership-based support service for corporate customers
August 1990	Established Networld Corporation
June 1995	Commenced α -Web, a commercial internet connection service
February 1996	Established Alpha Techno Co., Ltd.
September 1996	Commenced EC shop on the internet
November 1996	Acquired Alpha System Co., Ltd. as a subsidiary
August 1997	Established Aurora & Otsuka (currently Otsuka Information Technology Corp.) in Taiwan
October 1997	Opened Tokyo CTO Center to provide configure-to-order computers built according to customers’ specifications
October 1997	Established Alpha Network 24 Co., Ltd. (currently Alpha Net Co., Ltd.)
December 1998	Tokyo CTO Center obtained ISO 9001 certification
February 1999	Commenced sales through “tanomail,” a membership-based mail order service
November 1999	Commenced sales of α -MAIL, an ASP web hosting service
November 1999	Commenced ODS 2000 (currently ODS), a document solutions
July 2000	Opened the Otsuka Internet Data Center
July 2000	Listed on the Tokyo Stock Exchange First Section
December 2000	Obtained ISO 14001 certification at 14 major business sites (currently obtained at 25 sites)
September 2001	Commenced OSM, an information security business
December 2002	Awarded the Best IT Award by the Japan Institute of Office Automation (currently Japan Institute of Information Technology)

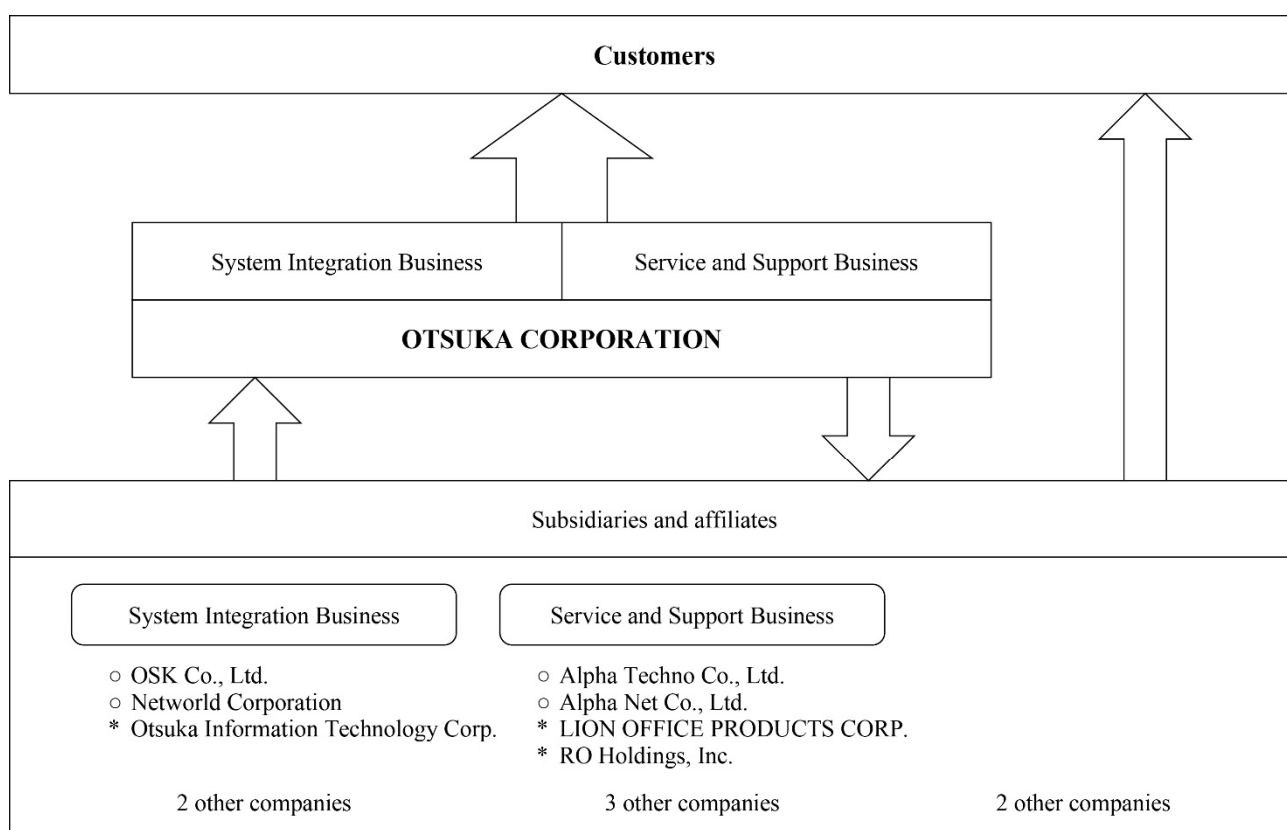
Year & month	Event
February 2003	Moved the head office to Chiyoda-ku, Tokyo, following the completion of the new head office building
April 2003	Total α Support Center (currently “tayoreru” Contact Center) received HDI Support Center Certification, the first in Japan, from the U.S. Help Desk Institute
October 2005	Received PrivacyMark Certification from the Japan Information Processing Development Center (currently JIPDEC)
April 2006	Established Otsuka Information System (Shanghai) Corporation
August 2006	Concentrated service and support businesses under the two major brands of “tanomail” and “tayoreru”
October 2007	Centralized the management of SMILE series brand in OSK Co., Ltd.
May 2008	Forged business and capital alliance with LION OFFICE PRODUCTS CORP.
February 2009	Opened the tayoreru Management Service Center
August 2010	Promoted tree planting activities, installation of LED streetlights, and other social contribution activities leading up to the 50th anniversary
April 2011	Completed the construction of Yokohama building fully equipped with LED lighting
December 2012	Received the IR Special Award
September 2013	Donated LED lighting and Smart Electric Outlets to the University of Tokyo for its I-REF building
June 2014	Received commendation from the IPv6 Promotion Council
October 2015	OSK Co., Ltd. and Alpha System Co., Ltd. Merged
October 2017	Opened Takasaki Branch in Takasaki City, Gunma Prefecture
September 2018	Opened Tsukuba Branch in Tsukuba City, Ibaraki Prefecture
December 2020	Established the DX Promotion Committee to reinforce internal structure
April 2021	Certified as a DX-certified business operator under the initiative of the Ministry of Economy, Trade and Industry of Japan
November 2021	Established Sustainability Committee
March 2022	Established Nomination and Remuneration Committee
April 2022	Transferred to the Prime Market of the Tokyo Stock Exchange
July 2023	Announced Medium- to Long-term Management Policy

3. Description of Business

OTSUKA CORPORATION (hereinafter referred to as “the Company”) and its affiliates comprise a total of 15 companies including the Company, eight subsidiaries (of which, four are consolidated subsidiaries) and six affiliates (of which, three are affiliates accounted for using equity method). Our major businesses are the System Integration business encompassing business areas from building to launching of information systems, and the Service and Support business covering the business area of providing support after the system launch.

The system diagram below shows the positioning of the Company and its major subsidiaries and affiliates and how they are related to each segment.

Segment name		Description of business
Reportable segments	System Integration Business	Consulting; sales of hardware and software; consigned software development; transport and installation work and network construction of equipment, etc.
	Service and Support Business	Office supplies, maintenance and support for business operations, etc.



Companies marked with “○” are consolidated subsidiaries.

Companies marked with “*” are affiliates accounted for using equity method.

4. Subsidiaries and Affiliates

Name	Address	Share capital (millions of yen)	Principal business	Ratio of voting rights held by the Company (%)	Relationship with the Company
(Consolidated Subsidiaries)					
OSK Co., Ltd.	Sumida-ku, Tokyo	400	System Integration Business	100.0	Consignment of software development Purchase of software products and services Interlocking directorates: No Provision of loans: No Lease of facilities: Yes
Networld Corporation	Chiyoda-ku, Tokyo	585	System Integration Business	81.5	Purchase of network-related products, etc. Interlocking directorates: No Provision of loans: No Lease of facilities: No Guarantee of obligation: Yes
Alpha Techno Co., Ltd.	Narashino City, Chiba Prefecture	50	Service and Support Business	100.0	Consignment of repair of PC peripherals Interlocking directorates: No Provision of loans: No Lease of facilities: Yes
Alpha Net Co., Ltd.	Bunkyo-ku, Tokyo	400	Service and Support Business	100.0	Consignment of network system support services Interlocking directorates: No Provision of loans: No Lease of facilities: No
(Affiliates accounted for using equity method)					
Otsuka Information Technology Corp.	New Taipei City, Taiwan Province	NT\$ million 170	System Integration Business	37.8	Interlocking directorates: Yes Provision of loans: No Lease of facilities: No
LION OFFICE PRODUCTS CORP.	Nakano-ku, Tokyo	2,677	Service and Support Business	40.4	Purchase of office supplies, office furniture, etc. Interlocking directorates: Yes Provision of loans: No Lease of facilities: Yes
RO Holdings, Co., Ltd.	Ota-ku, Tokyo	100	Service and Support Business	33.4	Interlocking directorates: Yes Provision of loans: No Lease of facilities: No

- (Notes)
- Names of the operations in “Principal business” are the same as those stated under the segment information section.
 - None of the above subsidiaries are specified subsidiary companies.
 - LION OFFICE PRODUCTS CORP. files its own annual securities report.
 - Net sales of Networld Corporation (excluding intercompany sales between consolidated companies) account for 10 percent or more of consolidated net sales.
Key profit/loss information
 - Net sales ¥128,705 million
 - Ordinary profit ¥4,983 million
 - Profit ¥3,490 million
 - Net assets ¥20,881 million
 - Total assets ¥47,444 million
 - Figures for “Ratio of voting rights held by the Company (%)” have been rounded down to the figures shown.

5. Employees

(1) Information about consolidated companies

As of December 31, 2023

Company name	Segment name	Number of employees (persons)
OTSUKA CORPORATION	System Integration Business and Service and Support Business	7,713 [1,154]
OSK Co., Ltd.	System Integration Business	434 [54]
Networld Corporation	System Integration Business	497 [58]
Alpha Techno Co., Ltd.	Service and Support Business	301 [97]
Alpha Net Co., Ltd.	Service and Support Business	476 [188]
Total		9,421 [1,551]

- (Notes)
1. As the reporting company is unable to classify the employees into particular segments, figures by segment have been omitted and figures by company are stated.
 2. The number of employees represents the number of full-time employees. As for the number of casual employees, the annual average is stated in brackets [], which is not included in the number of employees.
 3. Employees by secondments among consolidated companies are aggregated as employees of the assignee companies.
 4. The figures exclude persons who are seconded from the Company and its consolidated subsidiaries (hereinafter referred to as “the Group”) to external Group companies and include those who are seconded from external Group companies to the Group.
 5. Casual employees include contract employees, part-time employees and dispatched employees from temporary staffing agencies. Employees who are dispatched from other consolidated companies are not included. In addition, contract employees and part-time employees include employees with indefinite contracts.

(2) Information about reporting company

As of December 31, 2023

Number of employees (persons)	Average age (years)	Average years of service (years)	Average annual salary (yen)
7,713 [1,154]	41.7	17.4	9,372,118

- (Notes)
1. As it is unable to classify the employees into particular segments, figures by segment have been omitted.
 2. The average annual salary includes non-standard wages and bonuses.
 3. The number of employees represents the number of full-time employees. As for the number of casual employees, the annual average is stated in brackets [], which is not included in the number of employees.
 4. The figures exclude five persons who are seconded from the Company to external companies and include 18 persons who are seconded from external companies to the Company.
 5. Casual employees include contract employees, part-time employees and dispatched employees from temporary staffing agencies. The 90 employees who are dispatched from other consolidated companies are not included. In addition, contract employees and part-time employees include employees with indefinite contracts.

(3) Information about labor union

While no labor union is formed in the Company, the relationship between labor and management has been amicable.

(4) Percentage of female managers, rate of male employees taking childcare leave, and wage gap between male and female employees

(i) Reporting company

Current fiscal year				
Percentage of female managers (%) (Note 1)	Rate of male employees taking childcare leave (%) (Note 2)	Wage gap between male and female employees (%) (Note 1)		
		All employees	Regular employees	Non-regular employees
9.1	46.3	60.7	64.8	43.7

(Notes) 1. Calculated based on the provisions of the “Act on the Promotion of Women’s Active Engagement in Professional Life” (No. 64, 2015, hereinafter referred to as “Women’s empowerment law”).

2. Based on the provisions of the “Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members” (No. 76, 1991, hereinafter referred to as “Childcare/Caregiver Leave law”), the ratio of employees taking childcare leave, etc. and leave for childcare purposes is calculated in accordance with Article 71-4, item (ii) of the “Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members” (Ordinance of the Ministry of Labor No. 25, 1991, hereinafter referred to as “Ordinance for Enforcement of the Childcare/Caregiver Leave law”).

(ii) Consolidated subsidiaries

Current fiscal year					
Name	Percentage of female managers (%) (Note 1)	Rate of male employees taking childcare leave (%) (Note 2)	Wage gap between male and female employees (%) (Note 1)		
			All employees	Regular employees	Non-regular employees
OSK Co., Ltd.	8.0	60.0	74.1	73.7	74.4
Networld Corporation	9.5	100.0	67.4	66.2	134.0
Alpha Techno Co., Ltd.	11.0	16.0	65.9	84.3	55.1
Alpha Net Co., Ltd.	7.1	30.0	76.5	78.6	80.6

(Notes) 1. Calculated based on the provisions of the Woman’s empowerment law.

2. Based on the provisions of the Childcare/Caregiver Leave law, the ratio of employees taking childcare leave, etc. and leave for childcare purposes is calculated in accordance with Article 71-4, item (ii) of the Ordinance for Enforcement of the Childcare/Caregiver Leave law.

II. Overview of Business

1. Management Policy, Business Environment and Issues to be Addressed

Forward-looking statements included herein are based on the Group's judgement as of the end of the fiscal year under review.

(1) Basic management policy

The Group has established the "Mission Statement" as stated below, which serves as the basic policy that guides all of its corporate activities.

<<Mission>>

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

<<Goals>>

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

<<Principles>>

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

(2) Medium- to long-term corporate strategies

The Group aims to become an excellent corporate group that is highly appreciated in society by giving top priority to maintaining continuous and stable growth even under severe economic conditions, with special emphasis on profitability in practicing business management.

To achieve this goal, the Group is promoting the measures outlined below.

- 1) We will strive to further enhance our corporate value by practicing the "Pursuit of Customer Satisfaction," our basic policy since the founding, to a greater extent, and working to embody our "Mission Statement."
- 2) In order to forge new relationships with customers, we will establish three customer interfaces: "Real," "Web," and "Center," and provide solutions that align and blend our real-life business and web business, with the aim of being a partner to which customers can entrust the support of their entire office.
- 3) In the System Integration Business, we will focus on making proposals to improve corporate value by effectively using all of the Group's capabilities, and in the Service and Support Business, we will focus on stock-based business, particularly "tanomail," a mail-order business of office supplies, and "tayoreru," a support business. Through these efforts, we will strive to increase profitability.
- 4) In addition to developing organizations and systems, such as the centralization of operational tasks, practical use of the web, and building mechanisms, we will strive to improve productivity by utilizing digital technology and customer information to transform activity processes and business processes.
- 5) In order to maximize our consolidated revenue, we will take advantage of the features and functions of each Group company to make effective use of the Group's resources and develop human resources, while also make efforts to realize efficient corporate management.

(3) Target management indicators

One of the Group's management goals is to keep on enhancing corporate value through stable business expansion, accomplished by building long-term, sustainable business relationships with customers. As management indicators used to monitor progress towards this goal, we focus on the number of customer companies with transactions, net sales per company, the rate of operating profit growth, operating profit to net sales ratio, and return on equity, and strive for continuous improvement in these areas. We will also focus on the dividend payout ratio and aim to maintain stable dividends.

(4) Priority business issues to be addressed and the Company's understanding of business environment surrounding the issues

As stated in "(2) Medium- to long-term corporate strategies," the Group will enhance the quality of management to flexibly respond to the changes in the management environment 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 Group will undertake the following initiatives:

- Strengthening group management capability
- 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, the economy is expected to continue to improve, led by domestic demand, including a recovery in private consumption and increase in capital expenditure, although attention needs to be paid to factors such as a downturn in the global economy resulting from prolonged regional conflicts and global tightening of monetary policy, and continued price increases in Japan.

Under these economic conditions, companies are expected to promote digitization in order to improve productivity and strengthen competitiveness, such as undertaking labor-saving investments as a means of tackling labor shortages, and improving operational efficiency in order to comply with the mandatory cap on overtime hours to come into effect as part of work style reform laws. As for the IT market, IT investment by companies is expected to remain resilient, as demand for PC upgrades is expected to grow following the termination of Windows 10 support.

Based on the aforementioned outlook for the domestic economic situation and IT investment trends, the 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, under the fiscal 2024 slogan, "Get close to and grow together with customers by supporting DX," while further advancing our initiatives to support the entire office of our customers. In particular, for small- and medium-sized customers, whose digitization efforts are lagging behind, we will provide support for digitization as well as highly value-added solutions proposals that help them to improve productivity and reduce costs, thereby increasing 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. In addition, in fiscal 2024 we will continue to promote initiatives that will lead to improved employee engagement, such as raising the labor share of income in order to reinforce human capital, carrying out management reform aimed at supporting customers' entire offices, and developing AI-related personnel.

* 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 Service and Support business, we will work to strengthen our competitiveness and expand markets in the “tanomail” business. 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.

2. Stance and Initiatives Regarding Sustainability

The Group’s stance and initiatives regarding sustainability are as follows. Forward-looking statements included herein are based on the Group’s judgement as of the end of the fiscal year under review.

(Sustainability Policy)

The Company promotes sustainability management in order to achieve both the realization of a sustainable society and continuous improvement of corporate value through the realization of our Mission Statement. We will promote our growth strategy from a medium- to long-term perspective by aligning our “support of the entire office of our customers,” which is placed at the center of our value creation model, and our sustainability management and strengthening our response to materiality. In addition, in order to contribute to the resolution of ESG issues, such as climate change, and the achievement of the SDGs, we will strive to strengthen our management foundation, increase the resilience of our business model, and fulfill our social responsibilities as a company.

The Company has identified the following materiality issues.

Materiality issues		Reasoning behind our focus
Value creation through business activities	Maintenance and expansion of the customer base	OTSUKA CORPORATION has continued to grow by expanding our business domains as a means of responding to various customer needs. Accumulating the know-how gained from transactions with many customers and widely sharing it with society is the source of OTSUKA CORPORATION's added value.
	Coexistence and co-prosperity with partners	Being a multi-vendor is one of OTSUKA CORPORATION's strengths. In order to provide optimal solutions for our customers, we receive high-quality products, services, and technologies of various fields from numerous partners. Coexistence and co-prosperity with a wide range of partners is also essential from the perspective of diversifying risk in the event of an emergency.
	Coexistence with the community	From the time of our founding to the present (community-based operations), OTSUKA CORPORATION has placed importance on business activities rooted in the local community. We believe that our community-based operations will create a virtuous cycle of mutual development between OTSUKA CORPORATION and the community.
Support for employee growth and self-realization	Improvement of employee engagement	OTSUKA CORPORATION has continued to grow with each employee having a sense of fulfillment and accomplishment in their work. We believe that the growth of our employees will contribute to the creation of value in our business activities, which in turn will lead to the realization of our Mission Statement.
	Promotion of diversity, equity, and inclusion	In order to anticipate changes and continue providing solutions that meet the needs of the times, it is becoming increasingly important to increase the diversity of our organization. OTSUKA CORPORATION aims to create a comfortable work environment for all employees, and to be a company that continues to create new value that has never been seen before.
	Human resource development	In order to implement our "multi-vendor & multi-field" approach, which is one of our strengths, OTSUKA CORPORATION must continue to acquire expert knowledge and learn about the latest technologies. OTSUKA CORPORATION continues to support employees' self-realization while providing opportunities for continuous learning.
Implementation of responsible corporate activities	Response to climate change	Response to climate change on a global scale is positioned as one of the SDGs, and is an issue that needs to be addressed globally. It is also one of OTSUKA CORPORATION's important management issues, and we consider carrying out initiatives aimed at realizing a carbon-free society an extremely important mission. By recommending and providing sustainable products and services to customers, we will simultaneously increase corporate value and reduce our environmental burden.
	Information security to provide safe and secure solutions	OTSUKA CORPORATION operates the support business for comprehensive corporate activities. In the activities of this business, we believe the appropriate handling of information assets and protecting these information assets from various threats is an important issue. As such, we will establish and promote policies to comply with laws and regulations related to information security, promote the protection of information assets, establish systems, provide education and training, make continuous improvements, and take action against violations.
	Strengthening governance	Based on corporate ethics and the spirit of compliance spelled out in our Mission Statement, we will continue to aim to adapt agilely to changes in the environment and augment our competitiveness by ensuring thorough compliance and raising both operational transparency and fairness. We recognize that nurturing the next generation of management is also an important management issue.

(1) Governance and risk management related to overall sustainability

(i) Governance

We have established a Sustainability Committee to promote management from the perspective of sustainability. The committee works to improve the effectiveness of our sustainability management by making proposals to the Board of Directors regarding our responses to environmental and social risks, establishment of governance systems, and deliberations on materiality.

(ii) Risk management

- a) After discussions at the Sustainability Committee and the Board of Directors, we have identified nine materiality issues. In identifying the issues, we have examined a wide range of issues in business activities and determined the materiality issues for us to prioritize from the points of view of both the degree of interest for stakeholders and importance for the Group.
- b) The Company has established a Risk Management Committee as the body to promote and control business risk management. The Committee investigates respective measures for key risks and provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department in its scope.
- c) Led by the Sustainability Committee, we identify and assess climate-related risks that may have material impact financially or strategically.

We are working to strengthen our risk management by always maintaining consistency among these activities.

(2) Important sustainability items

(i) Response to climate change

a) Governance

The Board of Directors receives climate change-related reports from the Sustainability Committee, deliberates and makes resolutions on important risks and opportunities, gives directions regarding responses, and monitors their progress.

b) Risk management

Risk management related to climate change is outlined in “(1) Governance and risk management related to overall sustainability, (ii) Risk management.”

c) Strategies

We have identified risks and opportunities in our entire supply chain that may arise as a result of climate change and analyzed the impact on our business. For our analyses, we used the 4°C scenario and the less than 1.5°C scenario published by the International Energy Agency (IEA) and weighed the impact as of 2030 in each worldview.

	4°C	Less than 1.5°C
Risks	Increase in costs to deal with suspension of operations and interruption of logistics functions due to intensifying abnormal weather, such as typhoons and storm surges	Increase in costs to deal with the introduction of carbon taxes and soaring prices of electricity derived from fossil fuels in addition to physical damage similar to that stated in the 4°C scenario, even if damage will be down by half
Opportunities	Increase in customers' willingness to reduce costs and increase in demand for BCP measures in addition to the matter presented on the right	Increase in demand for environmentally friendly products and solutions

Based on these analyses, each business will consider, plan, and implement specific measures to prepare for all possibilities in an uncertain world in the future. Please see the Company website (<https://www.otsuka-shokai.co.jp/corporate/csr/environmental/tcf/pdf/csr-environmental-tcf.pdf>)(only available in Japanese) for risks, opportunities and strategies relating to expected events.

d) Metrics and targets

By 2030, we aim to reduce CO2 emissions from our business activities compared to 2021 as follows (Note).

The Company entered into a virtual power purchase agreement (PPA) as a means of achieving our targets. In 2023, we concluded a long-term contract to purchase non-FIT non-fossil fuel energy certificates from renewable energy power plants, and plans to start receiving them in 2024. The amount of renewable power is expected to reach a maximum of approximately 13,000 MWh (annual CO2 reduction effect of approximately 5,700 tons), equivalent to roughly 55% of the Group's electricity consumption.

Scope 1+2	42% reduction by 2030
Scope 3	25% reduction by 2030 (Category 1: Emissions from purchased goods and services; Category 11: Emissions from the use of sold products)

(Note) Obtained SBTi certification in June 2023

We plan to disclose our CO2 emissions for fiscal 2023 on the Company website.

Location: The Company website (<https://www.otsuka-shokai.co.jp/corporate/csr/date/>)(only available in Japanese)

Content: Scope 1, 2, and 3 emissions, and Scope 3 emissions by category

(ii) Human capital initiatives

The Company is promoting “support for employee growth and self-realization” as part of our human capital policy that is consistent with our sustainability management. The strategies, metrics, and targets included herein are those of the reporting company, which operates the consolidated Group's major businesses.

a) Improvement of employee engagement

Creating a work environment and corporate culture that gives all employees a sense of reward and achievement

The Company has continued to grow with each employee having a sense of fulfillment and accomplishment in their work. We aim at “employee growth = company growth = customer growth,” and foster a corporate culture and implement various measures to achieve this goal.

1) Employee awareness survey

We conduct continuous monitoring of employee engagement through employee awareness surveys and workplace improvement round-table conferences each year. By reflecting the results of these efforts in various measures and continuing to strive to create job satisfaction for employees, we aim to realize a relationship that enables both employees and OTSUKA CORPORATION to grow sustainably (83% of employees responded to the 17th employee awareness survey conducted in February 2023).

2) Improve the labor share of income

We have been reviewing and amending our salary structure since 2022 to further strengthen human capital and improve job satisfaction. In order to protect the livelihoods of our employees from rapidly rising prices, we are continuously implementing various measures that will lead to an increase in the labor share of income, including the first large basic salary increase (uniform ¥10,000 for all employees) in July 2022. As a result, the average annual salary in 2023 was ¥9.37 million (up 9.4% year-on-year).

In addition to non-monetary remuneration such as support for self-realization and the provision of opportunities for growth, we will enhance monetary remuneration to improve engagement, to ultimately attract and retain workforce.

3) Career development support

We implement various initiatives to provide opportunities for employees to autonomously develop their careers and face themselves, including career development support (self-reporting system, in-house job posting system, sales grade system), 360-degree feedback, and action plans (MBO, regular interviews with supervisors and feedback).

b) Promotion of diversity, equity, and inclusion

Developing a comfortable work environment for all employees

In order to be a company that is continuously needed for a long period of time, it is important to anticipate changes in the world and constantly create business models that meet the needs of the times. The Company strives to increase diversity as an organization by embracing each employee's diversity. We will continue to aim to be a company that achieves competitive advantage and sustainable value creation by developing a comfortable work environment for all employees.

1) Promoting the active participation of women

The Company started to work on initiatives to create a comfortable working environment for women at an early stage by establishing the "Women's Advancement Promotion Project Secretariat" in 2011, and in 2014 starting operation of the "Women's Hotline" as a consultation desk for female employees to ask for help on issues such as pregnancy and childbirth, and continues with these efforts.

In 2023, we have set targets for 1. percentage of female managers, 2. rate of employees taking childcare leave, and striven to enhance systems, thereby balancing work comfort and job satisfaction.

With regard to "1. percentage of female managers," we will aim to increase this percentage to 10% by 2027 (The percentage of female managers was 9.1% in fiscal 2023. We aim to early achieve this goal and revise it upward.) through encouraging female employees to participate in leadership development training such as Otsuka Management College and enhancing systems. With regard to "2. rate of employees taking childcare leave," while female employees are increasingly taking childcare leave, the challenge is that childcare leave for male employees is not yet widespread. We will improve this situation through ensuring awareness of the system and training, and aim to achieve a 100% childcare leave taken by both male and female employees in 2027. (In fiscal 2023, the rate of female employees taking childcare leave was 100%, while the rate of male employees taking childcare leave was 46.3%.) By encouraging male employees to take childcare leave, we will foster a corporate culture that is positive toward childcare, and support diverse work styles.

2) Work-life balance support (OWL's)

We introduced "OWL's (Otsuka Work Life Support)," a welfare program tailored to the life plans of our employees in April 2023. We have provided three categories that are likely to be barriers to employees in their continuation of work: trying to conceive, childcare, and eldercare. Employees can use multiple measures within the same category (cafeteria style), and a monthly cost subsidy of ¥20,000 per family is provided, regardless of gender.

3) Employment of persons with disabilities

Employees with disabilities are active in various departments. Employees who are qualified as "working life counselors for persons with disabilities" conduct regular follow-up interviews and questionnaires with employees with disabilities after they join the Company, for a better working environment.

c) Human resource development

Providing continuous learning opportunities to support the self-realization and growth of employees

The Company supports the growth and self-realization of its employees. In order for the Company to contribute to customer growth and continue to grow sustainably, the growth of each employee is crucial. As an employee of the Company, we provide various support systems and opportunities for group and optional training for our employees to grow not only as a businessperson, but also as an individual.

Recognizing that nurturing the next generation of management is an important management issue, we are strengthening initiatives in that regard.

1) Providing learning opportunities

Company-wide training largely consists of four categories: training by division, training by job category, training by job level, and company-wide training. A wide range of training programs are systematically prepared to help each employee acquire knowledge and skills they need.

Training costs per full-time employee in 2023 were ¥127,000 (+17.9% compared to the same period last year), which increased significantly from the previous year. Amid an ever-changing business environment, each customer's management issues are different. The Company will strive to develop human resources who can always think and act on their own from the customer's point of view, and continue its initiatives.

2) Nurturing DX professionals

Since the days when the concept of “DX” itself did not exist, the Company has continued to increase its productivity by utilizing IT. Since April 2021, we have been a “DX Certified Business Operator” established by the Ministry of Economy, Trade and Industry, and support our customers’ DX promotion by utilizing its know-how. Employees are provided with various education required to promote DX for customers and within the Company. In the current fiscal year, we provided all employees with e-learning courses to gain basic knowledge on generative AI, how to use it, what to keep in mind when using it, and other matters. At the Company, it is mandatory for employees to take an e-learning course prior to using generative AI for internal work. More than 85% of employees have taken this course. 862 and 40 employees acquired the AI-related Deep Learning for General certificate and Deep Learning for Engineer certificate*, respectively. (as of the end of December 2023)

* Deep Learning for General certificate and Deep Learning for Engineer certificate: Certification test sponsored by Japan Deep Learning Association

3) Fostering management and next-generation leaders

Fostering management and next-generation leaders is an important management issue. We continue our initiatives to that end, including the launch of a specialized development program in 2015, and reclassifying target job levels in 2022. In addition to acquiring management literacy, this program is implemented as a curriculum that allows participants to acquire practical competence by providing various output opportunities both internally and externally.

3. Business Risks

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

Forward-looking statements included herein are based on the Group's judgement as of the filing date of this Annual Securities Report.

(1) Customer-related risks

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

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

(2) Supplier-related risks

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

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

(3) Information leakage risks

The Group possesses an abundance of individual and corporate information pertaining to operations that is handled carefully. The Company received approval to use the PrivacyMark of the JIPDEC, and its Internet Data Center acquired certification for Information Security Management System (ISMS). With the expansion of its services, the Company has also acquired ISO 27017 certification (cloud security).

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

Even with these measures, however, the Group's operations could be impacted in the unlikely event that personal or corporate information is leaked outside the Group because the Group not only assumes liabilities for damage but also loses trust by society.

(4) Risks related to the spread of infectious diseases

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

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

4. Management Analysis of Financial Position, Operating Results and Cash Flows

(1) Overview of operating results, etc.

(i) Operating results

During the fiscal year under review (from January 1, 2023 to December 31, 2023), the Japanese economy continued to face uncertainty, such as the impact of soaring resource prices and prices in general and of global tightening of monetary policy. However, the economy remained on a moderate recovery trend amid improvement in companies' business sentiment as economic activities gradually normalized. Under these economic conditions, in the IT investment field, companies' software investment budgets are at high levels, and they are also responding to digitization in order to improve productivity, strengthen competitiveness, and reduce costs. As a result of such factors, demand for IT investment remained firm.

Amid such environment, the 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, in our sales activities, business negotiations via face-to-face customer visits, where the Group's strengths can be utilized, began picking up. Specifically, we made proposals for reviewing workflows to respond to revisions to the Labor Standards Act, the revised Electronic Books Maintenance Act, and the Invoice System, etc., and for digitizing and streamlining customers' daily operations through the combination of our security measures, integrated DX package, and cloud services. Moreover, based on examples of how the Company itself has successfully improved productivity, such as through business process reforms using AI, we supported customers' efforts to promote DX, including services that help small- and medium-sized 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% year-on-year to ¥977,370 million, owing partly to an increase in net sales per company due to capturing robust demand for corporate IT investment. At the earnings level, operating profit increased 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 increased 18.6% year-on-year to ¥47,448 million, owing to an increase in gross profit resulting from growth in revenue, despite an increase in selling, general and administrative expenses such as those for personnel costs. As a result, both revenue and profit increased. Net sales and various forms of profit reached record highs, while profit attributable to owners of parent increased significantly, partly due to the adoption of the tax scheme to promote the employee wage increases.

(System Integration Business)

The System Integration Business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction, and its net sales increased 16.3% year-on-year to ¥630,185 million due partly to higher hardware sales owing to growth in PC sales as well as steady sales for packaged software such as the "SMILE series*1" and consigned software.

(Service and Support Business)

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

*1 SMILE series: The Group's original integrated core operation system.

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

(ii) Financial position

Total assets at the end of the fiscal year under review increased ¥38,789 million from the end of the previous fiscal year to ¥561,805 million. Total liabilities increased ¥14,571 million from the end of the previous fiscal year to ¥214,854 million. Net assets increased ¥24,218 million from the end of the previous fiscal year to ¥346,950 million.

(iii) Cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥229,615 million, an increase of ¥26,340 million from the end of the previous fiscal year.

Factors relating to each cash flow category were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥71,649 million, an increase of ¥42,453 million from the previous fiscal year. This was mainly due to a contraction in the increase in trade receivables.

(Cash flows from investing activities)

Net cash used in investing activities amounted to ¥21,473 million, an increase of ¥13,117 million from the previous fiscal year. This was mainly due to an increase in payments into time deposits.

(Cash flows from financing activities)

Net cash used in financing activities amounted to ¥23,839 million, an increase of ¥531 million from the previous fiscal year. This was mainly due to an increase in dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥29,336 million from the previous fiscal year to ¥50,176 million.

(iv) Actual results of production, orders received and sales

a. Production results

The Group's major businesses are the System Integration business that spans from building to launching of information systems, and the Service and Support business that provides support after the system launch. In these businesses, the Group provides services and support according to customers' orders, which are received in a variety of forms. Grasping the amount of production according to the concept of production is therefore neither relevant to the Group's business nor possible and consequently such data have been omitted.

b. Purchase of merchandise

The results of purchase of merchandise by segment for the fiscal year under review are as shown below.

Segment name	Value of purchases (millions of yen)	Year-on-year change (%)
System Integration Business	466,634	+12.0
Service and Support Business	157,383	+7.4
Total	624,018	+10.8

(Notes) 1. Intersegment transactions have been eliminated.
2. Values are based on purchasing prices.

c. Orders received

Since the production operations of the Group consist mainly of support services such as hardware and software maintenance services, with only a small portion of which being engineered-to-order production, the report on actual orders received has been omitted.

d. Sales results

Sales results by segment for the fiscal year under review are as shown below.

Segment name	Sales turnover (millions of yen)	Year-on-year change (%)
System Integration Business	630,185	+16.3
Service and Support Business	347,185	+8.7
Total	977,370	+13.5

(Note) Intersegment transactions have been eliminated.

(2) Details of analysis and examination of operating results from management perspective

The details of recognition, analysis and examination of the Group's operating results from management perspective are as follows. Forward-looking statements included herein are based on management's judgments as of the filing date of this Annual Securities Report.

(i) Details of recognition, analysis and examination of operating results, etc. for the fiscal year under review

a. Analysis of operating results

(Sales)

Net sales of the Group for the fiscal year under review increased ¥116,347 million, or 13.5%, from the previous fiscal year to ¥977,370 million. By segment, net sales for the System Integration Business increased 16.3% year-on-year to ¥630,185 million, and net sales for the Service and Support Business increased 8.7% year-on-year to ¥347,185 million.

(Income and expenses)

Regarding profits, operating profit increased 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 increased 18.6% year-on-year to ¥47,448 million.

The information about sales and income and expenses are stated under "II. Overview of Business, 4. Management Analysis of Financial Position, Operating Results and Cash Flows, (1) Overview of operating results, etc., (i) Operating results."

b. Analysis of financial position

(Assets)

Total assets at the end of the fiscal year under review increased ¥38,789 million from the end of the previous fiscal year to ¥561,805 million.

Current assets increased ¥24,680 million from the end of the previous fiscal year to ¥459,794 million due to such factors as an increase in cash and deposits. Non-current assets increased ¥14,108 million from the end of the previous fiscal year to ¥102,010 million.

(Liabilities)

Total liabilities at the end of the fiscal year under review increased ¥14,571 million from the end of the previous fiscal year to ¥214,854 million.

Current liabilities increased ¥12,580 million from the end of the previous fiscal year to ¥203,263 million due to such factors as an increase in notes and accounts payable - trade. Non-current liabilities increased ¥1,990 million from the end of the previous fiscal year to ¥11,591 million.

(Net assets)

Net assets at the end of the fiscal year under review increased ¥24,218 million from the end of the previous fiscal year to ¥346,950 million due to such factors as an increase in retained earnings.

As a result, the equity ratio increased 0.0 percentage points from the end of the previous fiscal year to 61.1%.

c. Analysis of cash flows

The status of cash flows is stated under “II. Overview of Business, 4. Management Analysis of Financial Position, Operating Results and Cash Flows, (1) Overview of operating results, etc., (iii) Cash flows.”

Trends in the indicators related to cash flows of the Group are as shown below.

		Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Equity ratio	(%)	58.8	61.4	61.1	61.1
Equity ratio based on market value	(%)	219.3	214.1	150.6	196.2
Interest-bearing debt to cash flow ratio	(years)	0.3	0.2	0.3	0.1
Interest coverage ratio	(times)	725.3	1,295.2	663.6	1,808.7

Equity ratio: Equity / Total assets

Equity ratio based on market value: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest bearing debt / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest paid

(Notes) 1. All of the above indicators are calculated based on consolidated financial figures.

2. Total market capitalization is calculated based on the number of issued shares excluding treasury shares.

3. Interest-bearing debt includes all liabilities recorded in the Consolidated Balance Sheets for which interest is paid.

4. Cash flows from operating activities and interest paid are the same as the figures recorded as “net cash provided by (used in) operating activities” and “interest paid,” respectively, in the Consolidated Statements of Cash Flows.

5. The Group has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and others from the beginning of the fiscal year ended December 31, 2022.

d. Information on capital resources and liquidity of funds

The Group’s funding requirements are mainly for working capital to run its business activities and for equipment funds. These funding requirements are fulfilled through funds internally generated as well as loans from financial institutions.

With regard to working capital at hand, in our effort to reduce interest-bearing debt of the Group as a whole, we have introduced the Company’s cash management system (CMS) at some of the subsidiaries so as to bring surplus funds of these companies under the central management of the Company.

There is no plan of significant capital investment.

e. Status of achievement of target management indicators

One of the Group’s management goals is to keep on enhancing corporate value through stable business expansion, accomplished by building long-term, sustainable business relationships with customers. As management indicators used to monitor progress towards this goal, we focus on the number of customer companies with transactions, net sales per company, the rate of operating profit growth, the operating profit to net sales ratio, and return on equity, and strive for continuous improvement in these areas. We will also focus on the dividend payout ratio and aim to maintain stable dividends.

The targets for each management indicator set in the Medium- to Long-term Management Policy (announced on July 24, 2023) are: rate of number of customer companies with transactions growth of 2.0%, rate of net sales per company growth of 3.0%, rate of operating profit growth of 6.0%, anchoring operating profit to net sales ratio of 7.0%, and return on equity of 13.0%. We also aim to consistently achieve a dividend payout ratio of 50%.

In the fiscal year under review, the number of customer companies with transactions increased 1.1% year-on-year to 295,000 companies, net sales per company increased 12.0% year-on-year to ¥2.93 million, the rate of operating profit growth was 15.0%, the operating profit to net sales ratio expanded 0.1 percentage points year-on-year to 6.4%, and return on equity increased 1.4 percentage points year-on-year to 14.3%. The consolidated dividend payout ratio came to 53.9%. The Group will maintain its efforts to improve these financial indicators on a continuing basis.

(ii) Significant accounting policies and estimates

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan. In preparing these consolidated financial statements, the Group makes accounting estimates based on rational standards for matters that require estimates. The Group makes rational decisions regarding these estimates in consideration of past results. However, actual results may differ from these estimates. The accounting policies significant in preparing these consolidated financial statements are as described in "V. Financial Information."

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

Revenue recognition

a. Products

The Group identifies the procurement from suppliers and provision of the following products to customers as its performance obligations: SI-related products such as copiers, PCs, servers and software, which are included in the System Integration business, and supplies such as office equipment-related consumables and office supplies, which are included in the Service and Support business. Revenue is recognized 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.

The Group typically involves in determining the specifications of the goods for customers, the delivery date and the delivery location, and is responsible for selecting a manufacturer or distributor designated by the manufacturer (hereinafter referred to as the "regular suppliers") and delivering the goods to customers.

Some of those transactions involve multiple companies and the related goods themselves are delivered directly from a supplier to the final customer without going through the Company or the consolidated subsidiary concerned. These transactions may include goods that have been purchased from non-regular suppliers in exceptional circumstances. In that case, the Group must take into consideration the nature of each transaction, confirm the existence of the transaction, identify its own roles in the commercial flow of the transaction, identify the performance obligation, and accordingly assess whether it is a principal or an agent. When it is an agent, revenue is recognized at the net amount of consideration received from the customer less the amount paid to suppliers.

b. Services

The Group identifies performance obligations for consigned software development included in the System Integration business for each of the four phases of 1. requirements definition, 2. design, 3. construction, and 4. operational preparation and transition, and enters into contracts and acquires an acceptance inspection for each of these phases. However, for contracts that fall under the above category but have a very short term, revenue is recognized when the performance obligation is fully satisfied. In addition, maintenance services included in the Service and Support business are identified as performance obligations to provide maintenance and support for equipment, software, and other items installed in the System Integration business, and the revenues are recognized according to the performance obligations that are fulfilled by contract over a certain period of time or according to the volume of services provided. However, for some services, such as copy maintenance and telecommunications, in which other parties are involved, revenues are recognized on a net basis, as the Company judges that the performance obligation of the Company and its consolidated subsidiaries is to arrange for the services to be provided by such other parties and they are acting as agents in the transactions.

(3) Factors that have significant impacts on operating results

Factors that have significant impacts on operating results are stated under "II. Overview of Business, 3. Business Risks."

5. Material Contracts, etc.

(1) Technological alliances

Not applicable.

(2) Major business alliances concerning purchasing and sales

Not applicable.

(3) Other major business alliances

Not applicable.

6. Research and Development Activities

Research and development activities for the Group are conducted mainly by the Company and OSK Co., Ltd., a subsidiary responsible for research and development. The Group's research and development expenses for the fiscal year under review totaled ¥1,566 million.

Information by segment on research and development activities is not stated, since such activities cannot be connected to a particular segment.

The Group is engaged in research and development on the following themes related to software in computer systems. These are aimed at developing high-performance, high-quality and advanced products to be offered to the customers and to help improve productivity and promote DX for the customers, by building on the foundation of research for new information technologies and products and always incorporating trending functions such as the latest technology and cloud service integration into software products originally developed by the Group. The Group is also working to develop software tools aimed at boosting productivity in order to improve the efficiency of system support work performed by system engineers.

(i) Survey and research on the use and application of new information technologies and products

- Research and development of systems using AI image analysis technology
- Research and development of collection functions of various sensor information and data analysis functions linked with other system information
- Research and development of services using generative AI

(ii) Development of original software products

- New product development and drastic improvement of existing products of packaged software for industrial and business use
- New product development and drastic improvement of existing products in software related to integrated groupware
- New product development and drastic improvement of existing products of software integrating packaged software for business use and groupware
- Research and development of implementation of AI prediction model function for integrated software
- Research and development of package services using AI image analysis technology

(iii) Research and development of development tools aimed at the improvement of productivity and quality, and standardization in the process of consigned software development

III. Information about Facilities

1. Overview of Capital Investments

In the fiscal year under review, the Group made capital investments of ¥9,085 million to respond to the rapid technological innovation and changes in the market environment. Investments on intangible assets are stated, in addition to those on property, plant and equipment.

In the System Integration business, the Group made capital investments of ¥3,583 million, mainly to strengthen the sales support environment and to build up intra-company infrastructure.

In the Service and Support business, the Group made capital investments of ¥5,248 million, mainly to build up intra-company infrastructure for network support and system operation support.

2. Major Facilities

Major facilities of the Group as of December 31, 2023 are as listed below.

(1) Reporting company

As of December 31, 2023

Business site (location)	Segment name	Book value					Number of employees (persons)
		Buildings and structures (millions of yen)	Land		Other (millions of yen)	Total (millions of yen)	
			Area (m ²)	Value (millions of yen)			
Head Office, other (Chiyoda-ku, Tokyo, other)	System Integration Business and Service and Support Business	5,290 [1,399]	3,225	9,851	2,523	17,665	2,574
Metropolitan Area Group (Chiyoda-ku, Tokyo, other)	System Integration Business and Service and Support Business	4,003 [1,698]	4,260	2,744	277	7,025	2,965
Kansai Area Group (Fukushima-ku, Osaka City, other)	System Integration Business and Service and Support Business	894 [484]	1,278	730	104	1,729	1,155
Regional Offices (Naka-ku, Nagoya City, other)	System Integration Business and Service and Support Business	49 [568]	—	—	67	117	835
Hotel Division (Atami City, Shizuoka Prefecture, other)	System Integration Business and Service and Support Business	2,851 [2]	48,113	1,108	91	4,051	145
Logistics Center (Kanazawa-ku, Yokohama City, other)	System Integration Business and Service and Support Business	19 [3,407]	—	—	2,679	2,699	39

(2) Subsidiaries

As of December 31, 2023

Segment name	Number of subsidiaries	Details of facilities	Book value				Number of employees (persons)	
			Buildings and structures (millions of yen)	Land		Other (millions of yen)		Total (millions of yen)
				Area (m ²)	Value (millions of yen)			
System Integration Business	2	Facilities related to System Integration business	115 [567]	—	—	135	250	931
Service and Support Business	2	Facilities related to Service and Support business	29 [215]	—	—	32	61	777

- (Notes)
- “Other” under book value includes machinery and equipment, vehicles, furniture and fixtures, and leased assets.
 - “Head Office, other” of the reporting company includes business sites that serve head office functions.
 - “Metropolitan Area Group” and “Kansai Area Group” of the reporting company include their subordinate departments and regional offices.
 - “Regional Offices” of the reporting company includes Sapporo Branch (Chuo-ku, Sapporo City), Sendai Branch (Miyagino-ku, Sendai City), Chubu Branch (Naka-ku, Nagoya City), Kyoto Branch (Nakagyo-ku, Kyoto City), Kobe Branch (Chuo-ku, Kobe City), Hiroshima Branch (Naka-ku, Hiroshima City), Kyushu Branch (Hakata-ku, Fukuoka City), and others.
 - “Hotel Division” of the reporting company includes Hotel New Sagamiya (Atami City, Shizuoka Prefecture), Hotel Biwa Lake Otsuka (Otsu City, Shiga Prefecture), Hotel Ichinomiya Seaside Otsuka (Chosei-gun, Chiba Prefecture), and Hotel Ijika-So (Toba City, Mie Prefecture).
 - “Logistics Center” of the reporting company includes warehouses that serve its logistics functions.
 - Annual rent expenses for major rented facilities are separately stated in brackets [].
 - In addition to the above, there are major leased facilities as stated below.

(1) Reporting company

As of December 31, 2023

Segment name	Details	Number of units	Annual rental and leasing charges (millions of yen)
System Integration Business and Service and Support Business	Vehicles	2,331	667

(2) Subsidiaries

As there is no quantitative significance, statement has been omitted.

3. Planned Addition, Retirement, and Other Changes of Facilities

Plans for addition, etc. of significant facilities as of the end of the fiscal year under review are as stated below.

(1) Addition of significant facilities

Not applicable.

(2) Significant repair, retirement, etc.

Not applicable.

IV. Information about Reporting Company

1. Company's Shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of authorized shares (shares)
Common shares	677,160,000
Total	677,160,000

(ii) Number of shares issued

Class	Number of shares issued as of the fiscal year-end (shares) (December 31, 2023)	Number of shares issued as of the filing date (shares) (March 27, 2024)	Name of the financial instruments exchange on which the Company is listed or the authorized financial instruments firms association with which the Company is registered	Details
Common shares	190,002,120	190,002,120	Tokyo Stock Exchange (Prime Market)	The number of shares per stock unit is 100.
Total	190,002,120	190,002,120	–	–

(2) Share acquisition rights

(i) Description of stock option plans

Not applicable.

(ii) Description of rights plans

Not applicable.

(iii) Share acquisition rights for other uses

Not applicable.

(3) Exercises of corporate bond certificates, etc. with share acquisition rights subject to exercise value change

Not applicable.

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

Date	Change in the total number of shares issued (shares)	Balance of the total number of shares issued (shares)	Change in share capital (millions of yen)	Balance of share capital (millions of yen)	Change in legal capital surplus (millions of yen)	Balance of legal capital surplus (millions of yen)
April 1, 2018 (Note)	95,001,060	190,002,120	–	10,374	–	16,254

(Note) The change is attributable to a 2-for-1 stock split.

(5) Shareholding by shareholder category

As of December 31, 2023

Category	Status of shares (Number of shares per stock unit: 100 shares)								Shares less than one stock unit (shares)
	Government and local municipalities	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals Other	Total	
					Non-individuals	Individuals			
Number of shareholders (persons)	–	65	30	88	664	11	5,118	5,976	–
Number of shares held (stock units)	–	419,789	78,854	672,959	466,463	67	261,688	1,899,820	20,120
Percentage of the number of shares held (%)	–	22.09	4.15	35.42	24.55	0.00	13.77	100.00	–

- (Notes) 1. The percentages of the number of shares held have been rounded down to the second decimal place.
2. Of the 401,198 shares of treasury shares, 4,011 stock units are included in the figure presented for “Individuals and others” and 98 shares are included in the figure presented for “Shares less than one stock unit.”

(6) Major shareholders

As of December 31, 2023

Name	Address	Number of shares held (1,000 shares)	Percentage of the number of shares held to the total number of shares issued (excluding treasury shares) (%)
Otsuka Sobi Co., Ltd.	2-18-4 Iidabashi, Chiyoda-ku, Tokyo	63,602	33.54
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	19,422	10.24
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	14,023	7.39
Yuji Otsuka	Shinjuku-ku, Tokyo	4,681	2.46
OTSUKA CORPORATION Employee Stock-Sharing Plan	2-18-4 Iidabashi, Chiyoda-ku, Tokyo	4,406	2.32
Keiko Otsuka	Meguro-ku, Tokyo	3,481	1.83
JP Morgan Securities Japan Co., Ltd.	2-7-3 Marunouchi, Chiyoda-ku, Tokyo	2,951	1.55
STATE STREET BANK WEST CLIENT-TREATY 505234 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	2,459	1.29
SMBC Nikko Securities Inc.	3-3-1 Marunouchi, Chiyoda-ku, Tokyo	2,185	1.15
Atsushi Otsuka	Meguro-ku, Tokyo	1,860	0.98
Total	–	119,077	62.80

- (Notes) 1. The percentages of the number of shares held to the total number of shares issued (excluding treasury shares) have been rounded down to the second decimal place.
2. The large volume holding report made available for public inspection as of December 20, 2023, states that BlackRock Japan Co., Ltd. and its joint holders, BlackRock Advisers, LLC, BlackRock Financial Management, Inc., BlackRock (Netherlands) BV, BlackRock Fund Managers Limited, BlackRock Asset Management Ireland Limited, BlackRock Fund Advisors, BlackRock Institutional Trust Company, N.A. own the following shares as of December 15, 2023. However, as the Company has not been able to confirm the number of shares beneficially owned as of the end of the fiscal year under review, they are not included in the major shareholders listed above.

Name	Address	Number of share certificates, etc. held (1,000 shares)	Holding ratio of share certificates, etc. (%)
BlackRock Japan Co., Ltd.	1-8-3 Marunouchi, Chiyoda-ku, Tokyo	2,345	1.23
BlackRock Advisers, LLC	251 Little Falls Drive, Wilmington, DE, U.S.A.	248	0.13
BlackRock Financial Management, Inc.	251 Little Falls Drive, Wilmington, DE, U.S.A.	481	0.25
BlackRock (Netherlands) BV	Amstelplein 1, 1096 HA, Amsterdam, the Kingdom of the Netherlands	542	0.29
BlackRock Fund Managers Limited	12 Throgmorton Avenue, London, U.K.	243	0.13
BlackRock Asset Management Ireland Limited	2 Ballsbridge Park 1st floor, Ballsbridge, Dublin, Ireland	1,320	0.70
BlackRock Fund Advisors	400 Howard Street, San Francisco, CA, U.S.A.	2,393	1.26
BlackRock Institutional Trust Company, N.A.	400 Howard Street, San Francisco, CA, U.S.A.	2,085	1.10

(7) Voting rights

(i) Issued shares

As of December 31, 2023

Category	Number of shares (shares)	Number of voting rights (units)	Details
Shares without voting rights	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Others)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares) Common shares 401,100	–	–
Shares with full voting rights (Others)	Common shares 189,580,900	1,895,809	–
Shares less than one stock unit	Common shares 20,120	–	–
Issued common stock	190,002,120	–	–
Voting rights held by all shareholders	–	1,895,809	–

(Note) 98 treasury shares held by the Company are included in the figure presented for “Shares less than one stock unit.”

(ii) Treasury shares, etc.

As of December 31, 2023

Name of shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under names of others (shares)	Total number of shares held (shares)	Percentage of the number of shares held to the total number of shares issued (%)
(Treasury shares) OTSUKA CORPORATION	2-18-4 Iidabashi, Chiyoda-ku, Tokyo	401,100	–	401,100	0.21
Total	–	401,100	–	401,100	0.21

2. Acquisition and Disposal of Treasury Shares

Class of shares, etc.: Acquisition of common shares under Article 155, Item 7 of the Companies Act

(1) Acquisition by resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisition by resolution of the Board of Directors

Not applicable.

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

Category	Number of shares (shares)	Total amount (yen)
Treasury shares acquired during the current fiscal year	117	599,225
Treasury shares acquired during the current period	44	275,176

(Note) The figure presented for “Treasury shares acquired during the current period” does not include the number of shares less than one stock unit purchased during the period from March 1, 2024 to the filing date of the Annual Securities Report.

(4) Disposal and holding of acquired treasury shares

Category	Current fiscal year		Current period	
	Number of shares (shares)	Total amount disposed (yen)	Number of shares (shares)	Total amount disposed (yen)
Acquired treasury shares for which subscribers were solicited	–	–	–	–
Acquired treasury shares which were cancelled	–	–	–	–
Acquired treasury shares transferred due to a merger, share exchange, share delivery, or a company split	–	–	–	–
Others (–)	–	–	–	–
Treasury shares held	401,198	–	401,242	–

(Note) The figure presented for “Treasury shares held” during the “Current period” does not include the number of shares less than one stock unit purchased during the period from March 1, 2024 to the filing date of the Annual Securities Report.

3. Dividend Policy

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 taking into consideration of the enhancement of business foundation and soundness of financial strength. In addition, the Company pays dividends once a fiscal year based on its business performance in a full fiscal year.

In accordance with this policy, we increased the ordinary dividend by ¥10, and paid dividends of ¥135 per share to our shareholders for the current fiscal year to return profit to those shareholders who had supported us. As a result, the dividend payout ratio for the current fiscal year was 59.3%.

The decision-making body for year-end dividends of surplus at the Company is the Annual General Meeting of Shareholders. Furthermore, the Company’s Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company may pay interim dividends with the record date of June 30 each year.

Details of the dividends of surplus for the current fiscal year are as follows:

Date of resolution	Total amount of dividends (millions of yen)	Dividend per share (yen)
March 27, 2024 Resolution at the Annual General Meeting of Shareholders	25,596	135.00

4. Corporate Governance

(1) Overview of corporate governance

(i) Basic stance regarding corporate governance

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

<Mission Statement>

<<Mission>>

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

<<Goals>>

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

<<Principles>>

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

(ii) Overview of the corporate governance system and reason for adopting this system

A. Overview of the corporate governance system

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

The Board of Directors is chaired by Yuji Otsuka, President & Chief Executive Officer, and consists of eight persons, including three Outside Directors. The names of its members are presented later in “(2) Directors and Audit & Supervisory Board Members (i) List of Directors and Audit & Supervisory Board Members.” The Board of Directors meets regularly once per month in principle to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by Directors. In addition, by introducing the Executive Officer System, we aim to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Audit & Supervisory Board Members handle the oversight of business execution. There are 31 Executive Officers, including four with a concurrent post of Director. Their names are presented later in “(2) Directors and Audit & Supervisory Board Members (i) List of Directors and Audit & Supervisory Board Members.”

The Audit & Supervisory Board is chaired by Tatsumi Murata, Standing Audit & Supervisory Board Member, and is comprised of four Audit & Supervisory Board Members (one standing member and three non-standing members), including three Outside Audit & Supervisory Board Members. The names of its members are presented later in “(2) Directors and Audit & Supervisory Board Members (i) List of Directors and Audit & Supervisory Board Members.” The Audit & Supervisory Board prescribes auditing policies and annual plans, receives reports on important auditing-related matters and carries out discussions. The Audit & Supervisory Board Members attend such important meetings as the Board of Directors meetings to provide appropriate recommendations and advice, monitor whether suitable management is carried out and closely audit the execution of duties by Directors.

The other main systems are as follows.

The Nomination and Remuneration Committee consists of at least five Directors, a majority of whom are Independent Outside Directors. The members of the committee are President & Chief Executive Officer Yuji Otsuka, Managing Director & Executive Operating Officer Hironobu Saito, Independent Outside Director Jiro Makino, Independent Outside Director Tetsuo Saito, and Independent Outside Director Makiko Hamabe. By resolution of the Nomination and Remuneration Committee, Independent Outside Director Jiro Makino is selected as the Chairperson of the committee, and the chair is selected from among the committee members who are Independent Outside Directors as required. The purpose of the Nomination and Remuneration Committee is to strengthen the transparency, fairness, and objectivity of procedures related to the nomination and remuneration, etc. of Directors, and to enhance corporate governance.

The Board of Independent Outside Directors consists of all the Independent Outside Directors, with Jiro Makino as the Lead Independent Outside Director, and its members are Independent Outside Director Jiro Makino, Independent Outside Director Tetsuo Saito, and Independent Outside Director Makiko Hamabe. In principle, the Board of Independent Outside Directors is held once per month to share information and awareness necessary to actively contribute to discussions at the Board of Directors, and to report and offer opinions to the Board of Directors as necessary.

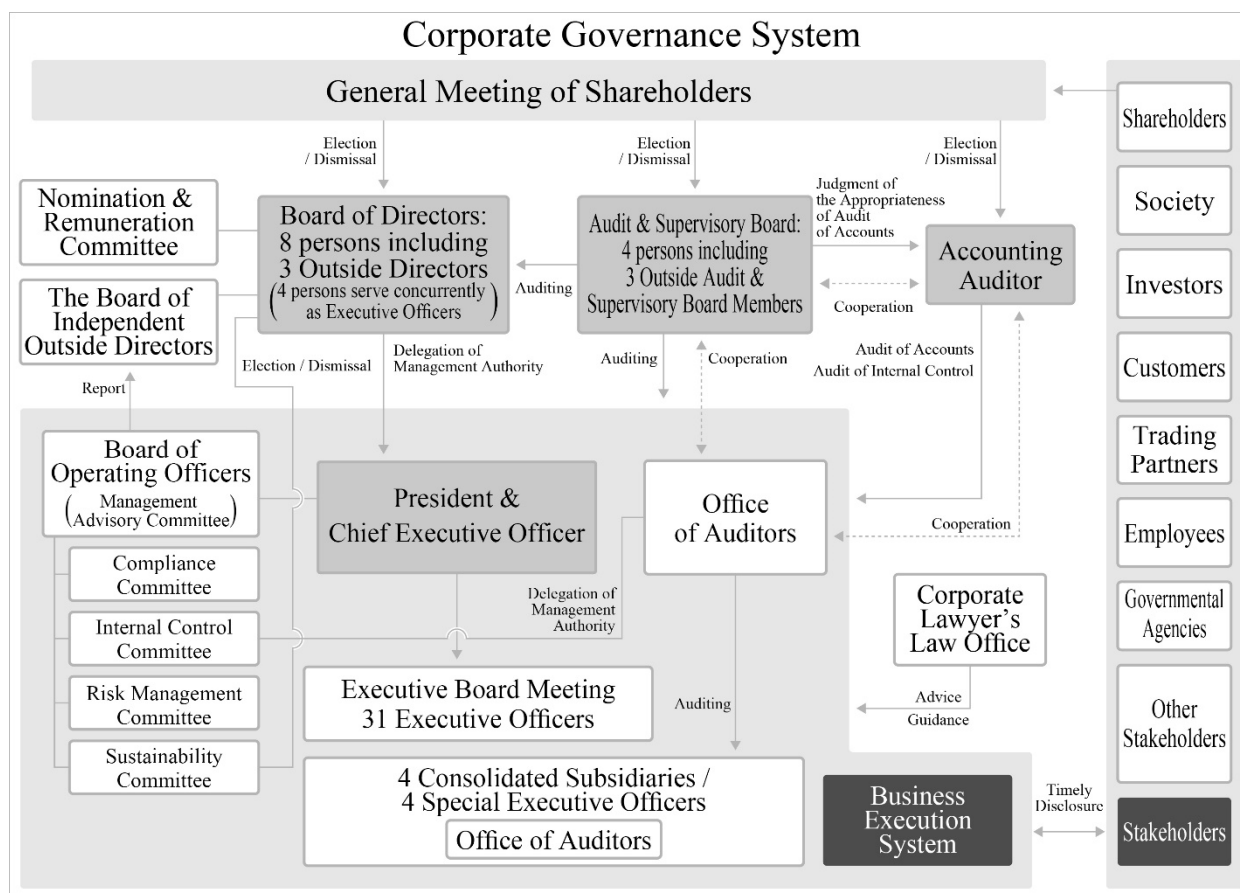
The Board of Operating Officers is chaired by President & Chief Executive Officer Yuji Otsuka, and consists of five members, including four in the position of Managing Director & Operating Officer or above. Its members are President & Chief Executive Officer Yuji Otsuka, Managing Director & Senior Executive Operating Officer Kazuyuki Katakura, Managing Director & Executive Operating Officer Hironobu Tsurumi, Managing Director & Executive Operating Officer Hironobu Saito, and Managing Director & Operating Officer Minoru Sakurai. The Board of Operating Officers serves as an advisory body for the decision-making of the President & Chief Executive Officer, and discusses basic policies concerning matters to be discussed at Board of Directors meetings and matters concerning important executive policies of management.

The Executive Board Meeting is chaired by President & Chief Executive Officer Yuji Otsuka, and consists of the President & Chief Executive Officer and 31 Executive Officers (including four Executive Officers concurrently serving as Directors), for a total of 32 members, the names of which are presented later in “(2) Directors and Audit & Supervisory Board Members (i) List of Directors and Audit & Supervisory Board Members.” The Executive Board Meeting works to ensure that the Executive Officers are thoroughly instructed by the Board of Directors and the President & Chief Executive Officer, and to exchange information with each other.

Furthermore, Group Management Meetings are held four times a year to monitor the management status and progress in achieving profit targets of each Group company and to strengthen corporate governance. Group Management Meetings are chaired by Managing Director & Executive Operating Officer; General Manager of Business Administration Headquarters Hironobu Saito, and the meeting consists of 24 members, including four Internal Directors (excluding the President & Chief Executive Officer), one standing Audit & Supervisory Board Member, four top management of Group companies (Special Executive Officers), and six Executive Officers who have close business relationships with Group companies, as well as the President’s Office and the Finance and Accounting Department.

Diagram

The Company's corporate governance system is as follows.



B. Reason for adopting this system

Because the Company's business domains are diverse, standing Audit & Supervisory Board Members who are familiar with the Company's business and can concentrate on the duties of Audit & Supervisory Board Members are appointed. The Company has also adopted an Audit & Supervisory Board Members System, in which the Company is allowed to appoint Outside Audit & Supervisory Board Members who have considerable insight and experience in law or finance and accounting and are covered under the independent authority system.

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

In this manner, the Company believes that its corporate governance system functions effectively, under which Executive Officers are in charge of business execution while the Board of Directors, including Outside Directors, and the Audit & Supervisory Board, including Outside Audit & Supervisory Board Members, serving as a basis for the system.

(iii) Other matters concerning corporate governance

A. State of internal control systems

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

o Basic policies for internal control systems

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

Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance system.

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

b) System for storing and managing information concerning the execution of duties by Directors

Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.

c) Regulations and other systems concerning management of risk of losses

Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect operating results, financial condition or other areas and respond appropriately.

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

d) System for ensuring the efficient execution of duties by Directors

The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties. Also, the Board of Directors shall clarify criteria for convening and bringing up matters for debate at council bodies set up to raise the suitability of decision-making, while stipulating details of the execution of duties in the Duty Authority Regulations and the Segregation of Duties Regulations to raise efficiency.

e) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries

1) System for reporting to the Company matters concerning the execution of duties by Directors of subsidiaries

Group Management Meetings are held to clarify operational conditions at consolidated subsidiaries and progress in achieving profit plans. The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries. When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or President & Chief Executive Officer on the state of the execution of duties.

2) Regulations and other systems concerning management of risk of losses at subsidiaries

The Board of Directors of consolidated subsidiaries shall identify, analyze and evaluate any risk that could affect operating results, financial condition or other areas and respond appropriately.

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

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

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

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

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

Consolidated subsidiaries shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement.

Consolidated subsidiaries shall strive to enhance their compliance systems and ensure the execution of business operations is in compliance with laws and the Articles of Incorporation by taking such measures as raising awareness through

continuous compliance education, setting up Office of Auditors within each company to improve business operations and properly applying the internal reporting system established by the Company and shared by consolidated subsidiaries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

President & Chief Executive Officer shall exchange opinions with Audit & Supervisory Board Members on a timely basis.

The Company's Office of Auditors shall maintain close relations with Audit & Supervisory Board Members and undertake inspections in accordance with the requests of Audit & Supervisory Board Members.

B. Basic thinking on the elimination of antisocial forces and establishment of measures

a) Basic thinking

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

b) Establishment of measures

The Company shall express its Action Guidelines against antisocial forces in its Mission Statement and Compliance Manual while designating its Compliance Office, Human Resources and General Affairs Department, and Customer Relationship Office as the department and office responsible for responding to antisocial forces.

The Company shall, in collaboration with legal counsel and external organizations that include police departments and the Metropolitan Police Department Joint Association for the Prevention of Particular Violence, consolidate the internal system and collect information. At the same time, employees shall be thoroughly familiarized with the Action Guidelines.

C. State of establishment of risk management structure

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

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

D. Summary of details of contract of limited liability

As prescribed by Article 427, Paragraph 1 of the Companies Act, the Company, each Outside Director and each Audit & Supervisory Board Member conclude a contract that limits liability under Article 423, Paragraph 1 of the Act.

The amount limit of the liability based on these contracts shall be the amount prescribed by law.

E. Summary of the contents of the liability insurance contracts for officers

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

All premiums for such insurance policies are borne by the Company and its subsidiaries.

F. Number of Directors

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

G. Resolutions for appointment of Director

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights at the General Meeting of Shareholders, and is approved by a majority of voting rights of such shareholders.

In addition, a resolution for the appointment of a Director shall not be decided by cumulative voting.

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

The Company's Articles of Incorporation stipulate that a special resolution of the General Meeting of Shareholders, pursuant to Article 309, Paragraph 2 of the Companies Act, requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights, and is approved by two-thirds of more of voting rights of such shareholders. This is intended to facilitate efficient operation of the General Meeting of Shareholders by relaxing the quorum for special resolutions at the General Meeting of Shareholders.

I. Interim dividend

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

J. Purchase of own shares

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

(iv) Status of activities by the Board of Directors

The Board of Directors in principle convened once per month during the fiscal year, and the state of attendance by each Director is as follows:

Class	Name	Number of times convened	Number of times attended (attendance rate)
President & Chief Executive Officer	Yuji Otsuka	19 times	19 times (100%)
Director	Kazuyuki Katakura	19 times	19 times (100%)
Director	Hironobu Tsurumi	19 times	19 times (100%)
Director	Hironobu Saito	19 times	19 times (100%)
Director	Minoru Sakurai	19 times	19 times (100%)
Director	Jiro Makino	19 times	18 times (95%)
Director	Tetsuo Saito	19 times	19 times (100%)
Director	Makiko Hamabe	19 times	19 times (100%)

The details of the contents considered by the Board of Directors are as follows.

Quarter	Resolution	Report	Agenda
First	○	○	Women's empowerment law: Draft of a five-year action plan and measures to support work-life balance
		○	Matters related to the financial results for the fiscal year ended December 31, 2022 (including the announced plan and dividends for fiscal 2023)
		○	Partial sale of shareholdings
		○	Annual financial plan for fiscal 2023
		○	Report from the Nomination and Remuneration Committee
		○	Matters related to the Annual General Meeting of Shareholders for the 62nd fiscal year (proposals, personnel changes for officers, items to be resolved, etc.)
		○	Sale and relocation of the company building
		○	Regulation revisions (employment regulations, etc.)
		○	Disclosure of information in accordance with the TCFD recommendations
		○	KAM (Key audit matters)
○	Submission of corporate governance report		
○	Donations to local regions (the southwest Shikoku area, etc.) through the hometown tax program for businesses		
○	Monthly financial report		

Quarter	Resolution	Report	Agenda
Second	<ul style="list-style-type: none"> ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ 	<ul style="list-style-type: none"> ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ 	<ul style="list-style-type: none"> Results of deliberations by the Nomination and Remuneration Committee Matters related to internal control Donations to a local region (Fukuoka City) through the hometown tax program for businesses Results of voting rights exercised at the General Meeting of Shareholders Company responses to opinions and requests at workplace improvement round-table conferences Results report on responses to the issues identified in the 2022 evaluation of the Board effectiveness Matters related to the financial results for the first quarter of the fiscal year ended December 31, 2023 Regulation revisions (regulations on personal information protection) Investment in AVILEN, Inc. Report from the Nomination and Remuneration Committee Organizational and personnel changes for the new business year made on July 1, 2023 Head office renovation Submission of corporate governance report Matters regarding the conclusion of virtual PPA Monthly financial report
Third	<ul style="list-style-type: none"> ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ 	<ul style="list-style-type: none"> ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ 	<ul style="list-style-type: none"> Matters related to the Logistics Center (relocation, increasing floor space and other expansion) Regulation revisions (related to additional measures to create job satisfaction, sales management) Revisions to the Environmental Policy Report on the evaluation of the Board effectiveness “Medium- to Long-term Management Policy” Earnings forecast revisions Matters related to the financial results for the second quarter of the fiscal year ended December 31, 2023 Submission of corporate governance report Deliberations on fiscal 2023 promotions Integration and relocation of site buildings Monthly financial report
Fourth	<ul style="list-style-type: none"> ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ 	<ul style="list-style-type: none"> ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ ○ 	<ul style="list-style-type: none"> Regulation revisions and establishment of new regulations (health and productivity management, etc.) Promotion and disclosure of constructive dialogue with shareholders Matters related to the financial results for the third quarter of the fiscal year ended December 31, 2023 Sale of cross-shareholdings Investment in Happiness Planet, Ltd. Report from the Nomination and Remuneration Committee Renewal of directors and officers liability insurance Depositing of callable fixed deposits Conclusion of new subsidiary loan limit and debt guarantee consignment contracts Revision of regulations by reviewing treatment for the Hotel Division Planned personnel changes for January 2024 Report on the results of the Nomination and Remuneration Committee meetings Matters regarding promotion of the active participation of women Monthly financial report

(v) Status of activities by the Nomination and Remuneration Committee

The Nomination and Remuneration Committee in principle convened six times during the fiscal year, and the state of attendance by each Director is as follows:

Class	Name	Number of times convened	Number of times attended (attendance rate)
President & Chief Executive Officer	Yuji Otsuka	6 times	6 times (100%)
Director	Hironobu Saito	6 times	6 times (100%)
Director	Jiro Makino	6 times	6 times (100%)
Director	Tetsuo Saito	6 times	6 times (100%)
Director	Makiko Hamabe	6 times	6 times (100%)

The details of the contents considered by the Nomination and Remuneration Committee are as follows.

Quarter	Agenda
First	Personnel changes for officers Revisions to the policy for determining remuneration for Directors Officer remuneration composition proportion and levels
Second	Remuneration level for President Otsuka Officer remuneration amounts Retirement benefits Determination of bonus payment amounts for the first half Medium- to long-term incentives The independence of Outside Directors
Third	—
Fourth	Determination of bonus payment amounts for the second half Personnel changes for officers

(vi) Status of activities by the Board of Independent Outside Directors

The Board of Independent Outside Directors in principle convened once per month during the fiscal year, and the state of attendance by each Director is as follows:

Class	Name	Number of times convened	Number of times attended (attendance rate)
Director	Jiro Makino	12 times	12 times (100%)
Director	Tetsuo Saito	12 times	12 times (100%)
Director	Makiko Hamabe	12 times	12 times (100%)

The details of the contents considered by the Board of Independent Outside Directors are as follows.

Quarter	Agenda
First	Preliminary review of agenda items for the Board of Directors meetings Medium-term management plan (Medium- to Long-term Management Policy) Use of the points system The status of dialogue between Outside Directors and shareholders Reconfirmation of the business through the Practical Solutions Fair Preparation of a list of expected questions and answers for the General Meeting of Shareholders Price increase for the “tayoreru” maintenance service Assignment of new graduates hired in 2023 and recruitment plan for 2024 Feedback on the NIKKEI Integrated Report Award Organizational name change
Second	Preliminary review of agenda items for the Board of Directors meetings Subcontractor’s overcharging for the municipal government of Ishikari City Donation of products for anti-COVID-19 measures

Quarter	Agenda
Third	Preliminary review of agenda items for the Board of Directors meetings Medium- to Long-term Management Policy Status of the company-wide workforce and status of new graduate recruitment for 2024 Selecting recipients of donations for social contribution activities Improper conduct/fraudulent activities
Fourth	Preliminary review of agenda items for the Board of Directors meetings Feedback on governance survey results

(2) Directors and Audit & Supervisory Board Members

(i) List of Directors and Audit & Supervisory Board Members

Male: 11, Female: 1 (Ratio of female Directors and Audit & Supervisory Board Members: 8%)

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (1,000 shares)
President & Chief Executive Officer General Manager of Marketing Headquarters	Yuji Otsuka	February 13, 1954	Apr. 1976 Joined The Bank of Yokohama, Ltd. Dec. 1980 Joined Ricoh Company, Ltd. Nov. 1981 Joined the Company Mar. 1992 Director Mar. 1993 Operating Director Mar. 1994 Executive Operating Director Mar. 1995 Director & Vice President (Representative Director) Aug. 2000 President & Chief Executive Officer of Otsuka Sobi Co., Ltd. (current position) Aug. 2001 Director & President (Representative Director) of the Company Mar. 2006 President & Chief Executive Officer (current position)	(Note) 3	4,681
Managing Director & Senior Executive Operating Officer General Manager of Sales Headquarters, Deputy General Manager of Marketing Headquarters	Kazuyuki Katakura	June 11, 1952	Mar. 1976 Joined the Company Oct. 1996 General Manager of CAD Sales Promotion Department Mar. 1997 Director Mar. 1999 Operating Director Jul. 2003 Operating Director & Senior Managing Officer Mar. 2006 Managing Director & Senior Operating Officer Mar. 2008 Managing Director & Executive Operating Officer Mar. 2018 Managing Director & Senior Executive Operating Officer (current position)	(Note) 3	50
Managing Director & Executive Operating Officer Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, General Manager of CAD Promotion Department	Hironobu Tsurumi	July 23, 1955	Mar. 1979 Joined the Company Nov. 2001 Chairman of Aurora & Otsuka (currently Otsuka Information Technology Corp.) (current position) Jul. 2004 Managing Officer Mar. 2006 Senior Managing Officer Mar. 2010 Director & Senior Managing Officer Mar. 2013 Managing Director & Operating Officer Mar. 2018 Managing Director & Senior Operating Officer Mar. 2019 Managing Director & Executive Operating Officer (current position)	(Note) 3	30
Managing Director & Executive Operating Officer General Manager of Business Administration Headquarters, In charge of Project Promotion Office, In charge of Office of Auditors, In charge of Multi-AI Research Center, In charge of Customer Personalized Pages Promotion Center	Hironobu Saito	July 17, 1949	Aug. 1968 Joined the Company Oct. 2000 General Manager of Corporate Planning Office Jul. 2003 Managing Officer Mar. 2005 Senior Managing Officer Mar. 2007 Director & Senior Managing Officer Mar. 2011 Managing Director & Operating Officer Mar. 2018 Managing Director & Senior Operating Officer Mar. 2021 Managing Director & Executive Operating Officer (current position)	(Note) 3	186
Managing Director & Operating Officer General Manager of Technology Headquarters, Executive Department Head of AP Solution Department	Minoru Sakurai	March 27, 1957	Mar. 1979 Joined the Company Jul. 2003 Head of Technical Solution Center Mar. 2005 Managing Officer Mar. 2010 Senior Managing Officer Mar. 2011 Director & Senior Managing Officer Mar. 2013 Managing Director & Operating Officer (current position)	(Note) 3	19

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (1,000 shares)
Director	Jiro Makino (Note) 1	May 14, 1953	Apr. 1983 Registered as an attorney at law Aug. 1990 Established MAKINO legal professional office (currently MAKINO law office professional corporation) Director (current position) Mar. 2004 Outside Audit & Supervisory Board Member of the Company Mar. 2015 Outside Director (current position)	(Note) 3	–
Director	Tetsuo Saito (Note) 1	March 25, 1954	Apr. 1977 Joined Tokyo Stock Exchange (currently Japan Exchange Group, Inc.) May 1997 Representative Director of Work Two Co., Ltd. (current position) May 2009 Outside Audit & Supervisory Board Member of Diamond Dining Co., Ltd. (currently DD GROUP Co., Ltd.) (current position) Jun. 2012 Outside Audit & Supervisory Board Member of DM Solutions Co., Ltd. (current position) Dec. 2015 Outside Director of Career Design Center Co., Ltd. (current position) Mar. 2016 Outside Director of the Company (current position)	(Note) 3	–
Director	Makiko Hamabe (Note) 1	August 28, 1964	Apr. 1988 Joined Tokyo Office of the Central Bank of Chile (Financial Department of Embassy of Chile) Sep. 1992 Joined Tokyo Branch of J.P. Morgan Securities Asia Pte. Limited (currently JP Morgan Securities Japan Co., Ltd.) Apr. 1995 Joined Tokyo Office of Company Information Division, Department of Trade and Industry of Catalonia, Spain Jun. 1998 Joined Thomson Financial Investor Relations Mar. 2000 Joined Yahoo Japan Corporation (currently LY Corporation) Sep. 2019 Joined DIP Corporation Feb. 2021 Established Makiko Hamabe Office Representative (current position) Mar. 2021 Outside Director of SoldOut, Inc Mar. 2021 Outside Director of the Company (current position) Mar. 2023 Outside Audit & Supervisory Board Member of McDonald's Holdings Company (Japan), Ltd. (current position)	(Note) 3	–
Standing Audit & Supervisory Board Member	Tatsumi Murata	November 2, 1957	Mar. 1981 Joined the Company Jan. 2013 General Manager of Operation Administration Department Apr. 2016 General Manager of Office of Auditors Mar. 2020 Operating Officer, General Manager of Office of Auditors Mar. 2021 Standing Audit & Supervisory Board Member (current position)	(Note) 4	1

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (1,000 shares)
Audit & Supervisory Board Member	Kazuhiko Nakai (Note) 2	August 31, 1951	Aug. 1976 Joined Chuo Audit Corporation Mar. 1981 Registered as a certified public accountant Nov. 1995 Senior Partner of Chuo Audit Corporation Mar. 2005 Registered as a certified public tax accountant Established Kazuhiko Nakai Tax Accountant Office Director (current position) Jul. 2007 Senior Partner of Ernst & Young ShinNihon (currently Ernst & Young ShinNihon LLC) Jul. 2010 Established Kazuhiko Nakai CPA Office Director (current position) Jun. 2011 Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. (current position) Mar. 2012 Outside Audit & Supervisory Board Member of the Company (current position) Feb. 2019 Outside Director of S-Pool, Inc. (current position)	(Note) 5	—
Audit & Supervisory Board Member	Etsuo Hada (Note) 2	November 27, 1961	Sep. 1987 Joined Chuo Audit Corporation Mar. 1990 Registered as a certified public accountant Aug. 1993 Registered as a judicial scrivener Sep. 1993 Director of Hada CPA and Judicial Scrivener Office (current position) Jun. 1999 Registered as a certified public tax accountant Jun. 2004 Registered as an administrative scrivener Jun. 2004 Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd. (current position) Mar. 2016 Outside Audit & Supervisory Board Member of the Company (current position)	(Note) 5	—
Audit & Supervisory Board Member	Katsumasa Minagawa (Note) 2	July 21, 1971	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 Outside Audit & Supervisory Board Member of the Company (current position) Jan. 2022 Established Kollect Partners Representative Attorney (current position)	(Note) 5	—
Total					4,970

- (Notes) 1. Directors Jiro Makino, Tetsuo Saito and Makiko Hamabe are Outside Directors.
2. Audit & Supervisory Board Members Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa are Outside Audit & Supervisory Board members.
3. The period between the election at the Annual General Meeting of Shareholders held on March 29, 2023 and the conclusion of the Annual General Meeting of Shareholders for fiscal 2024
4. The period between the election at the Annual General Meeting of Shareholders held on March 29, 2023 and the conclusion of the Annual General Meeting of Shareholders for fiscal 2026
5. The period between the election at the Annual General Meeting of Shareholders held on March 27, 2024 and the conclusion of the Annual General Meeting of Shareholders for fiscal 2027
6. The Company introduced the Executive Officer System in July 2003 in order to further strengthen corporate governance and improve management efficiency. Executive Officers of the Company are comprised of the following persons, as well as those concurrently serving as Director as listed above.

Title	Position	Name
Operating Officer	Executive Division Manager of Tanomail Division	Kazuki Kimura
Operating Officer	Executive Department Head of Industry SI Department, General Manager of Headquarters SI Supervision Department, General Manager of Industry SI Promotion Department	Koichiro Yamada
Senior Managing Officer	Head of Total Solution Group, Head of Inside Business Center, Head of SPR / CRM Center	Toshio Otani
Senior Managing Officer	Assistant to Executive Department Head of CAD Department, General Manager of PLM Solution Sales Department	Hiroshi Muto
Senior Managing Officer	Head of Multi-AI Research Center	Takahiro Jinushi
Senior Managing Officer	Executive Division Manager of LA Division, General Manager of Broad Regional Sales Department, LA Division	Kazuhiro Kohara
Senior Managing Officer	Head of Outbound Marketing Management Center, General Manager of Integrated Strategy Planning Department, General Manager of Security Infrastructure Promotion Department, General Manager of Cloud Infrastructure Promotion Department, General Manager of Infrastructure Base Promotion Department, General Manager of Network Infrastructure Promotion Department, General Manager of Regional Promotion Department, General Manager of Advertising Department, in charge of Sales Support Center	Yoshihiro Tokura
Senior Managing Officer	General Manager of Northern Kanto Sales Dept.	Hiroki Saito
Senior Managing Officer	Executive Department Head of TC Solution Department, Head of Technical Solution Center	Tatsuya Shimizu
Senior Managing Officer	General Manager of Finance and Accounting Department	Kazuo Uneno
Senior Managing Officer	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	Isao Murakami
Senior Managing Officer	General Manager of President's Office, General Manager of Compliance Office	Koichi Hisano
Senior Managing Officer	General Manager of Human Resources and General Affairs Department	Shigeru Koizumi
Senior Managing Officer	General Manager of Osaka Southern Sales Dept.	Teruki Ashihara
Senior Managing Officer	Head of Application Solution Center	Kenji Kuwabara
Senior Managing Officer	Executive Department Head of Support Center Department, Head of Tayoreru Management Service Center	Kazuya Hamaguchi
Managing Officer	General Manager of Kanagawa Sales Dept.	Norihide Seino
Managing Officer	Assistant to Executive Division Manager of Tanomail Division, General Manager of Tanomail Sales Department, General Manager of Tanomail Information Department, General Manager of Tanomail Marketing Department	Tomohiro Tsuchiya
Managing Officer	Total Solution Master	Hiroki Yamaguchi
Managing Officer	Total Solution Master	Kenji Watanabe
Managing Officer	Executive Department Head of Regional Department	Shinji Koike
Managing Officer	General Manager of Product Department, in charge of Logistics Promotion Department	Hiroshi Iwamiya
Managing Officer	General Manager of Operation Administration Department	Naoko Sano
Managing Officer	General Manager of Project Promotion Office, Head of Customer Personalized Pages Promotion Center	Yukitaka Suzuki
Managing Officer	General Manager of Chuo Sales Dept. 2	Yuji Miyagawa
Managing Officer	Executive Department Head of Telecommunication Network Department, General Manager of ICT Major Customers Supervision Sales Department, General Manager of Telecommunication Network Promotion Department	Kiyotaka Tsuboi
Managing Officer	General Manager of Total Information System Office	Yoshimitsu Ogura

(ii) Outside Directors and Audit & Supervisory Board Members

The Company has three Outside Directors and three Outside Audit & Supervisory Board Members.

Outside Director Jiro Makino has been appointed as an Outside Director because of his knowledge and experience as a lawyer and long years of involvement in the actual practice of corporate legal affairs. The Tokyo Stock Exchange has been notified that he has been designated as an independent officer as stipulated by the Exchange.

There are no special interests or otherwise relationship between the Company and MAKINO law office professional corporation, in which Outside Director Jiro Makino concurrently holds a significant position.

Outside Director Tetsuo Saito has been appointed as an Outside Director because of his long years of experience in participating in the management of numerous companies in multiple industries. The Tokyo Stock Exchange has been notified that he has been designated as an independent officer as stipulated by the Exchange.

There are no special interests or otherwise relationship between the Company and Work Two Co., Ltd., DD GROUP Co., Ltd., DM SOLUTIONS Co., Ltd. and Career Design Center Co., Ltd., in which Outside Director Tetsuo Saito concurrently holds a significant position.

Outside Director Makiko Hamabe has been appointed as an Outside Director because of her high level of knowledge about ESG and IR and her involvement in corporate communications and IR-related activities for many years. The Tokyo Stock Exchange has been notified that she has been designated as an independent officer as stipulated by the Exchange.

There are no special interests or otherwise relationship between the Company and Makiko Hamabe Office and McDonald's Holdings Company (Japan), Ltd., in which Outside Director Makiko Hamabe concurrently holds a significant position.

Outside Audit & Supervisory Board Member Kazuhiko Nakai has been appointed as an Outside Audit & Supervisory Board Member because of his knowledge and experience as a certified public accountant and certified public tax accountant and long years of involvement in the actual practice of corporate accounting. The Tokyo Stock Exchange has been notified that he has been designated as an independent officer as stipulated by the Exchange.

There are no special interests or otherwise relationship between the Company and Kazuhiko Nakai Tax Accountant Office, Kazuhiko Nakai CPA Office, Nippon Antenna Co., Ltd. and S-Pool, Inc., in which Outside Audit & Supervisory Board Member Kazuhiko Nakai concurrently holds a significant position.

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

Outside Audit & Supervisory Board Member Etsuo Hada has been appointed as an Outside Audit & Supervisory Board Member because of his knowledge and experience as a certified public accountant, certified public tax accountant, judicial scrivener and administrative scrivener, as well as his long years of involvement in the actual practice of corporate accounting and legal affairs. The Tokyo Stock Exchange has been notified that he has been designated as an independent officer as stipulated by the Exchange.

There are no special interests or otherwise relationship between the Company and Hada CPA and Judicial Scrivener Office and The Nikkan Kogyo Shimbun, Ltd., in which Outside Audit & Supervisory Board Member Etsuo Hada concurrently holds a significant position.

Outside Audit & Supervisory Board Member Katsumasa Minagawa has been appointed as an Outside Audit & Supervisory Board Member because of his knowledge and experience as a lawyer as well as his long years of involvement in the actual practice of corporate legal affairs. The Tokyo Stock Exchange has been notified that he has been designated as an independent officer as stipulated by the Exchange.

There are no special interests or otherwise relationship between the Company and Kollect Partners and Ubiquitous AI Corporation, in which Outside Audit & Supervisory Board Member Katsumasa Minagawa concurrently holds a significant position.

The Company does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of Outside Directors and Outside Audit & Supervisory Board Members. However, the Company selects and appoints individuals who are able to ensure independence from the Company based on the criteria for determining independence of directors and auditors set out by the Tokyo Stock Exchange.

Outside Directors and Outside Audit & Supervisory Board Members each attend Board of Directors meetings to provide opinions based on their extensive insights and experience. This strengthens the function of overseeing business execution by the Board of Directors and decision-making by the Board of Directors.

(iii) Supervision or auditing by Outside Directors or Outside Audit & Supervisory Board Members and mutual cooperation among internal audits, Audit & Supervisory Board audits and accounting audits, and relationships with internal control departments

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

Outside Audit & Supervisory Board Members receive a report on the audit plan and the status of audit implementation from the Office of Auditors and exchange opinions at the Audit & Supervisory Board meetings held in principle once per month.

Besides receiving reports on the establishment and operation of internal controls from the Internal Control Committee at the Board of Directors meetings, Outside Directors and Outside Audit & Supervisory Board Members exchange information and opinions with the Finance and Accounting Department and Compliance Office as appropriate to ascertain the current situation and issues of the Group and express opinions from a professional viewpoint as necessary.

Outside Audit & Supervisory Board Members, with the attendance of Outside Directors, meet on a timely basis with Accounting Auditors to confirm auditing plans and the condition of audit implementation and progress on improvements to recommended areas, exchange information on confirming the legality of actions taken by Directors and take appropriate steps as required.

(3) Status of audits

(i) Status of audits by Audit & Supervisory Board Members

The Audit & Supervisory Board consists of four members, including three Outside Audit & Supervisory Board Members (one standing Audit & Supervisory Board Member and three non-standing Audit & Supervisory Board Members) as described in “(1) Overview of corporate governance (ii) Overview of the corporate governance system and reason for adopting this system,” and the names of its members and selection criteria are presented in “(2) Status of Directors and Audit & Supervisory Board Members.” Among these Audit & Supervisory Board Members, Outside Audit & Supervisory Board Member Kazuhiko Nakai and Outside Audit & Supervisory Board Member Etsuo Hada hold qualifications as certified public accountants and certified public tax accountants and have considerable knowledge of finance and accounting. In addition, Outside Audit & Supervisory Board Member Katsumasa Minagawa holds qualifications as a lawyer and has considerable knowledge of law.

The Audit & Supervisory Board is chaired by a standing Audit & Supervisory Board Member in accordance with its resolution.

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

Class	Name	Number of times convened	Number of times attended (attendance rate)
Standing Audit & Supervisory Board Member	Tatsumi Murata	17 times	17 times (100%)
Audit & Supervisory Board Member	Kazuhiko Nakai	17 times	17 times (100%)
Audit & Supervisory Board Member	Etsuo Hada	17 times	17 times (100%)
Audit & Supervisory Board Member	Katsumasa Minagawa	17 times	17 times (100%)

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

Items considered	Status of activities		
	Standing	Non-standing	Activity details
Formulation of audit policy and annual plan	○	○	After discussion, formulated the audit policy and annual plan.
Selection of persons convening the Audit & Supervisory Board meetings and the chairperson thereof	○	○	After discussion, the person convening the Audit & Supervisory Board meetings and the chairperson thereof were selected.
Selection of standing Audit & Supervisory Board Members	○	○	After discussion, standing Audit & Supervisory Board Members were selected.
Determination of a specified Audit & Supervisory Board Member	○	○	After discussion, a specified Audit & Supervisory Board Member was decided.
Determination of monthly remuneration for Audit & Supervisory Board Members	○	○	After discussion, the monthly remuneration for Audit & Supervisory Board Members was decided.
Consideration of raising the maximum total amount of remuneration for Audit & Supervisory Board Members	○	○	After discussion, it was decided to propose an increase in the maximum total amount of remuneration for Audit & Supervisory Board Members at the General Meeting of Shareholders.
Exchange of opinions with the President & Chief Executive Officer	○	○	Opinions were exchanged with the President & Chief Executive Officer.
Attendance and expression of opinions at the Board of Directors meetings	○	○	Each Audit & Supervisory Board Member attended all Board of Directors meetings and expressed opinions as appropriate.
Attendance and expression of opinions at important meetings	○	—	Attended important meetings (Executive Board Meeting, Otsuka Corporation Group Management Meeting, IT Control Committee, etc.) and expressed opinions as appropriate. (Note) 1
Attendance and expression of opinions at annual planning meetings for the next fiscal year	○	○	Attended annual planning meetings for the next fiscal year and expressed opinions as appropriate.

Items considered	Status of activities		
	Standing	Non-standing	Activity details
Hearing reports from Directors and employees	○	○	Received reports from Directors who also serve as Executive Officers and department heads and requested explanations.
Monitoring and verification of status of establishment and operation of the internal control system, including financial reporting	○	○	Monitored and verified status of establishment and operation of the internal control system, including financial reporting.
Confirmation of status of accounts receivable collection	○	—	Confirmed the status of accounts receivable collection and requested explanations. (Note) 1
Examination of financial results documents	○	○	Examined financial results documents and requested explanations.
Examination of important documents	○	—	Examined important documents (approval documents, etc.) and requested explanation. (Note) 1
Report on the status of execution of duties by standing Audit & Supervisory Board Members	○	○	Standing Audit & Supervisory Board Members reported to non-standing Audit & Supervisory Board Members on the status of execution of duties by the standing Audit & Supervisory Board Members.
Observation for inventory counts	○	○	Observed inventory counts and requested explanations.
Cooperation and exchange of opinions among the three-way audits (accounting auditor and the Office of Auditors)	○	○	Received reports on the audit plan and audit implementation status from the accounting auditor and the Office of Auditors and exchanged opinions.
Exchange of opinions with the presidents and representative directors of consolidated subsidiaries	○	○	Exchanged opinions with the presidents and representative directors of consolidated subsidiaries.
Hearing reports and exchanging opinions with Audit & Supervisory Board Members of consolidated subsidiaries	○	○	Received reports from Audit & Supervisory Board Members of consolidated subsidiaries and exchanged opinions.
Hearing reports regarding whistleblowing independent of management	○	○	Received internal reports from a whistleblowing hotline independent of management.
Assessment of the appropriateness of the accounting auditor's audit method and results	○	○	Assessed the appropriateness of the accounting auditor's audit method and results and decided to reappoint the accounting auditor.
Consent to accounting auditor's fee	○	○	Discussed and consented to the accounting auditor's fee plan.
Consent to the non-assurance services agreement with the accounting auditor	○	○	Discussed and consented to the notice regarding the provision of non-assurance services by the accounting auditor.
Preparation of audit report	○	○	Audited business reports, financial statements, etc., and prepared an audit report.

(Note) 1. Important matters are also shared with non-standing Audit & Supervisory Board Members as appropriate.

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

(ii) Status of internal audits

The Office of Auditors (19 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice for improving operations and raising awareness. Audit results are reported to Directors and Audit & Supervisory Board Members each month. In addition, the Office of Auditors receives reports on the results of internal audits implemented at each group company from Office of Auditors

established at each group company.

The Office of Auditors regularly exchanges opinions with the accounting auditor regarding audit plans, the state of audit implementation and results, and strives for mutual collaboration. In this fiscal year, the Office of Auditors held opinion exchanges in January and August.

Additionally, the Office of Auditors strives for mutual collaboration with Audit & Supervisory Board Members at the Audit & Supervisory Board meetings as described in “(2) Status of Directors and Audit & Supervisory Board Members (iii) Supervision or Auditing by Outside Directors or Outside Audit & Supervisory Board Members and Mutual Cooperation among Internal Audits, Audit & Supervisory Board Audits and Accounting Audits, and Relationships with Internal Control Departments,” and exchanged opinions 11 times during this fiscal year.

(iii) Accounting audits

a) Name of audit firm

Ernst & Young ShinNihon LLC

b) Consecutive audit period

Since 1992

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

c) Certified public accountants involved in audit-related operations

Munetake Kamiyama, Designated Engagement Partner

Hideaki Keyaki, Designated Engagement Partner

d) Composition of staff assisting in audit-related operations

CPAs: 7

Other individuals: 22

e) Audit firm selection policy and reasons thereof

(Accounting auditor selection policy)

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

(Policy on dismissal or determination of non-reappointment of accounting auditor)

The Audit & Supervisory Board will determine the details of the proposal for dismissal or non-reappointment of the accounting auditor to be submitted to the General Meeting of Shareholders if it determines that doing so is necessary, such as when there is an issue with the accounting auditor’s execution of duties.

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

(Reason for reappointment of accounting auditor)

The Audit & Supervisory Board evaluated the accounting auditor in accordance with the policy for selecting the

accounting auditor and determined that reappointing Ernst & Young ShinNihon LLC as the accounting auditor would be appropriate.

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

The Audit & Supervisory Board, as described in “(2) Status of Directors and Audit & Supervisory Board Members (iii) Supervision or Auditing by Outside Directors or Outside Audit & Supervisory Board Members and Mutual Cooperation among Internal Audits, Audit & Supervisory Board Audits and Accounting Audits, and Relationships with Internal Control Departments,” exchanges information with the accounting auditor and receives reports from the accounting auditor on the results of quality control reviews and inspections of external audit firms.

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

(iv) Details of audit fees, etc.

a) Fee for auditing certified public accountants

Class	Previous fiscal year		Current fiscal year	
	Fee for audit services (Millions of yen)	Fee for non-audit services (Millions of yen)	Fee for audit services (Millions of yen)	Fee for non-audit services (Millions of yen)
Otsuka Corporation	73	—	76	2
Consolidated subsidiaries	17	—	18	—
Total	91	—	94	2

(Current fiscal year)

Non-audit services for the Company include advisory services related to the preparation of English translations of annual securities reports, which fall under services other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act.

b) Fee for the same network as the auditing certified public accountants (Ernst & Young) (excluding a)

Not applicable.

c) Details of fee for other important audit and certification services

Not applicable.

d) Policy for determining audit fees

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

e) Reasons the Audit & Supervisory Board consented to the fee for the accounting auditor

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

(4) Directors' remuneration

(i) Items concerning policy for determination of remuneration amounts for Directors and calculation method

The Company has resolved its policy for determining the details of individual remuneration for Directors at a meeting of the Board of Directors. In addition, the Board of Directors has confirmed that the method of determining the details of remuneration, etc. and the details of remuneration, etc. determined for each individual director for the current fiscal year are consistent with the policy for determining remuneration resolved by the Board of Directors, and therefore believes that the remunerations are in line with such policy.

The Company's policy for determining the details of individual remuneration for Directors is as follows.

[Policy for Determining Remuneration for Directors]

Remuneration for Directors (excluding Outside Directors) shall be monetary remuneration within the range approved by a resolution of the General Meeting of Shareholders and shall comprise basic remuneration, bonuses, earnings bonuses, retirement benefits for officers (saving-type remuneration at time of retirement) and corporate-type defined contribution pension plan (standing Directors under 60 years old). For Directors who concurrently serve as Managing Officers, position and performance as a Managing Officer shall also be considered in determining their Director remuneration. Remuneration levels as well as the percentages of each of the following types of remuneration as individual remuneration for Directors are set according to job responsibilities and contributions, etc., giving reference to survey data from external specialist organizations.

- A. Basic remuneration is paid monthly in an amount determined taking into consideration the balance with the salaries of other companies and employees, as well as the evaluation of the performance of the divisions in charge for past years.
- B. In order to link bonuses with the level of contribution to the operation of the Company, the payment level of bonuses is predetermined based on the achievement rate of target operating profit, which is strongly correlated to stock price. The amount of bonuses to be paid annually in July and December shall be determined based on the performance of the entire company during the bonus payment period, the performance of the department in charge and the degree of contribution to performance of the individual officer, while ensuring the transparency in linking bonuses to business performance.
- C. Earnings bonuses are paid annually around February and August after amounts are decided in accordance with the achievement rate of the annual and semi-annual operating profit based on the annual and semi-annual plan for employees.
- D. In accordance with the provisions of the rules for retirement benefits for officers, the annual basic amount of retirement benefits for officers are accumulated for standing Directors based on their positions. The cumulative amount (*) is calculated at the time of their retirement and paid in an amount determined based on a resolution of the General Meeting of Shareholders.
- E. The corporate-type defined contribution pension plan provides monthly contributions to standing Directors under the age of 60 in an amount equal to the maximum amount paid to employees in accordance with the provisions of the defined contribution pension rules established by a resolution of the Board of Directors.

Outside Directors shall receive monetary remuneration that consists solely of fixed basic remuneration from the perspective of maintaining independence. Basic remuneration shall be within a range approved by a resolution of the General Meeting of Shareholders and paid monthly in an amount determined based on the remuneration levels of other companies and the remuneration levels of standing Directors of the Company.

As per the above policy, the Nomination and Remuneration Committee, an advisory body to the Board of Directors, deliberates A. basic remuneration, B. bonuses, and D. 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 overview of Nomination and Remuneration Committee is described in "(1) Overview of corporate governance (ii) Overview of the corporate governance system and reason for adopting this system A. Overview of the corporate governance system".

The Nomination and Remuneration Committee held the meetings as described in “(1) Overview of corporate governance (v) Status of activities by the Nomination and Remuneration Committee,” to deliberate on remuneration for officers during the current fiscal year and reported the results of its deliberations to the Board of Directors.

Reference

Annual basic amount for each position stipulated in the rules for retirement benefits for officers (effective from April 2003)

Position	Fixed amount by position (Ten thousand yen)
President & Chief Executive Officer	1,200
Managing Director & Senior Executive Operating Officer	400
Managing Director & Executive Operating Officer	370
Managing Director & Senior Operating Officer	300
Managing Director & Operating Officer	280
Managing Director & Senior Managing Officer	200

* Cumulative amount of annual basic amount for each position (fixed amount by position) × total number of years in office

[Policy for Determining Remuneration for Audit & Supervisory Board Members]

Remuneration of Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) shall be monetary remuneration, and basic remuneration shall be paid within the range approved by a resolution of the General Meeting of Shareholders. Basic remuneration is paid monthly in an amount determined through discussions among Audit & Supervisory Board Members.

Retirement benefits for Audit & Supervisory Board Members were applied only to standing Audit & Supervisory Board Members. However, at the meeting of the Board of Directors held on February 21, 2022 and the General Meeting of Shareholders held on March 29, 2022, it was resolved that the retirement benefit system for standing Audit & Supervisory Board Members shall be abolished upon the conclusion of the General Meeting of Shareholders. For the standing Audit & Supervisory Board Member currently in office, to remunerate his achievements during his term of office until the conclusion of the General Meeting of Shareholders, at the aforementioned meeting of the Board of Directors and General Meeting of Shareholders, it was resolved that final retirement benefits shall be paid within a reasonable range based on certain standards prescribed by the Company and that the timing of payments shall be at the time of his retirement as Audit & Supervisory Board Member and the specific amount, method and other details of such payment shall be determined through discussions by the Audit & Supervisory Board Members.

Outside Audit & Supervisory Board members shall receive monetary remuneration that consists solely of fixed basic remuneration. Basic remuneration is paid monthly in an amount determined through discussions among Audit & Supervisory Board Members.

(ii) Total amount of remuneration for each officer class, total amount by type of remuneration and number of eligible officers

Officer class	Total remuneration (Millions of yen)	Breakdown of remuneration (Millions of yen)			Number of eligible 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 Directors	39	39	—	—	3
Outside Audit & Supervisory Board Members	22	22	—	—	3

(Notes) 1. The above figures include two Directors who retired at the conclusion of the 62nd Annual General Meeting of Shareholders held on March 29, 2023.

- The amount of remuneration, etc. for Directors does not include the amount of employee salaries of Directors who concurrently serve as employees.
- The amount of remuneration for Directors is set at ¥650 million or less per year (however, employee salary portions are not included) based on a resolution of the General Meeting of Shareholders held on March 13, 1990. The number of Directors at the conclusion of said General Meeting of Shareholders was 18.
- The amount of remuneration for Audit & Supervisory Board Members is ¥50 million or less per year based on a resolution of the General Meeting of Shareholders held on March 30, 2005. Considering the increased duties and expected roles of the Audit & Supervisory Board Members more than ever before, as well as other factors such as changes in the economic environment, it was resolved at the General Meeting of Shareholders held on March 27, 2024 to revise the amount of remuneration for Audit & Supervisory Board Members to be ¥80 million or less per year. The number of Audit & Supervisory Board Members at the conclusion of said General Meeting of Shareholders was four.
- The above amount of retirement benefits includes an increase in provision for retirement benefits for directors (and other officers) for the fiscal year under review.
- The actual results of performance indicators used to calculate the amount of performance-linked remuneration for the fiscal year under review are operating profit for the eligible bonus period of ¥54,281 million (target value ¥50,877 million, achievement rate 106.7%) with regard to bonuses, and annual operating profit of ¥55,323 million (target value ¥51,800 million, achievement rate 106.8%) with regard to earnings bonuses.
- The Company resolved at the 61st Annual General Meeting of Shareholders held on March 29, 2022 to abolish the retirement benefits system for standing Audit & Supervisory Board Members upon the conclusion of the said general meeting and to pay retirement benefits at the time of retirement to one standing 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.

(iii) Total consolidated remuneration, etc. by officer of the reporting company

Name	Total consolidated remuneration (Millions of yen)	Officer class	Company category	Breakdown of consolidated remuneration (Millions of yen)		
				Fixed remuneration	Performance- linked remuneration	Retirement benefits
Yuji Otsuka	155	Director	Reporting company	71	71	12

(Note) Figures are only disclosed for officers that receive total consolidated remuneration of ¥100 million or more.

(5) Principal stockholdings by the Company

(i) Criteria and concept for classification of investment stocks

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

(ii) Stocks held for purposes other than pure investment

a) Holding policy and method for verifying the rationality of holdings and details of verification by the Board of Directors regarding the suitability of holding individual stocks

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

Every year the Board of Directors verifies the returns and risks of policy stocks from a medium to-long-term perspective and considers the suitability of holding these stocks. As evaluation criteria for determining the suitability of holdings, the Company comprehensively considers such factors as the benefits of alliances, comparison of investment returns and the cost of capital, investment risk and the growth potential of the relevant company.

In accordance with the above criteria, as a shareholder, the Company will sell policy stocks that do not result in a medium-to-long-term increase in corporate value upon carrying out sufficient dialogue with its partner company.

At the Board of Directors meeting for the current fiscal year, the Company pursued a return on investment of all policy stocks that is calculated from dividends and business profits obtained from the company as well as the acquisition price of the shares and compared and verified the return on investment with the Company's cost of capital. As a result, the Company deliberated on the suitability of holding stocks for which return on investment was lower than the Company's cost of capital. As a result of this deliberation, although some of these stocks have little direct relation to business profits, the Company has confirmed the benefits of maintaining cooperative relationships in undertaking its business operations that include alliances in financing and fund settlement fields and has determined the appropriateness of holding these stocks. On the other hand, the Company has resolved to proceed with the sale of stocks for which the appropriateness of these holdings has not been recognized.

b) Criteria for exercising voting rights for policy stocks

Regarding the exercise of voting rights of policy stocks, the Company determines whether to approve or disapprove a proposal upon close examination of individual stocks to determine whether they contribute to the enhancement of medium-to-long-term corporate value of the relevant company and the Company.

c) Number of issues and balance sheet amount

	Number of issues	Total balance sheet amount (Millions of yen)
Unlisted stocks	22	3,645
Stocks other than unlisted stocks	25	13,534

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

	Number of issues	Total amount of acquisition price for the increase in the number of shares (Millions of yen)	Reason for increase in number of shares
Unlisted stocks	2	454	New investments to strengthen our measures for the BCP market and well-being markets
Stocks other than unlisted stocks*	2	1,926	Regular purchases by the Stock Ownership Association and new investments to strengthen our measures for training AI personnel and for the AI systems market

* In addition to the above, one issue increased due to the listing of Nihon Knowledge Co., Ltd.

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

	Number of issues	Total amount of sales price for the decrease in the number of shares (Millions of yen)
Unlisted stocks*	3	4
Stocks other than unlisted stocks	3	1

* In addition to the above, one issue decreased due to the listing of Nihon Knowledge Co., Ltd.

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

Specified investment stocks

Name	Current fiscal year	Previous fiscal year	Purpose of holding, overview of business alliance, etc., quantitative holding effect and reason the number of shares increased	Holds Company stock
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
PERSOL HOLDINGS CO., LTD.	30,000,000	3,000,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by securing and ensuring a stable supply of excellent human resources, including IT personnel, and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to a stock split.	No Note 4
	7,263	8,484		
AVILEN, Inc.	1,140,000	—	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to a new investment made to conclude a capital and business alliance agreement with the company, which has strengths in AI personnel training and AI systems market.	No
	2,910	—		
GiG Works Inc.	1,080,000	1,080,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	682	312		
SIOS Corporation	1,593,300	1,593,300	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintain and strengthen the sales cooperation systems as the Company's business partner with the aim of. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	548	605		
Ricoh Company, Ltd.	439,885	419,302	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to regular purchases by the Stock Ownership Association for the purpose of strengthening relationships as important partners, since the company has a long track record centered on primarily office automation (OA) equipment.	Yes
	476	422		
Daiwa House Industry Co, Ltd.	100,000	100,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	427	303		

Name	Current fiscal year	Previous fiscal year	Purpose of holding, overview of business alliance, etc., quantitative holding effect and reason the number of shares increased	Holds Company stock
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
Concordia Financial Group, Ltd.	382,204	382,204	The purpose of holding the company's shares is to improve corporate value of the company, a major financial institution of the Company, by facilitating smooth transactions including stable financing, and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	246	210		
Daito Trust Construction Co., Ltd.	13,100	13,100	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	214	177		
Nihon Knowledge Co., Ltd.	134,000	*	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to the listing of the previously unlisted stock held by the Company.	Yes
	195	*		
Cybertrust Japan Co., Ltd.	64,000	32,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to a stock split.	No
	138	100		
Credit Saison Co., Ltd.	50,000	50,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	129	85		

Name	Current fiscal year	Previous fiscal year	Purpose of holding, overview of business alliance, etc., quantitative holding effect and reason the number of shares increased	Holds Company stock
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
Bandai Namco Holdings Inc.	28,512	9,504	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to a stock split.	No
	80	79		
Zeon Corporation	35,200	35,200	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	46	47		
Meiko Network Japan Co., Ltd.	60,000	60,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	45	37		
Mitsubishi UFJ Financial Group, Inc.	29,110	29,110	The purpose of holding the company's shares is to improve corporate value of the company, a major financial institution of the Company, by facilitating smooth transactions including stable financing, and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 5
	35	25		
Nippon Kayaku Co., Ltd.	20,000	20,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	26	22		
Kyowa Kirin Co., Ltd.	8,000	8,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	18	24		
Dai-ichi Life Holdings, Inc.	4,300	4,300	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 6
	12	12		
HYPER Inc.	24,000	24,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	7	11		
Rengo Co., Ltd.	7,600	7,600	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the	No
	7	6		

Name	Current fiscal year	Previous fiscal year	Purpose of holding, overview of business alliance, etc., quantitative holding effect and reason the number of shares increased	Holds Company stock
	Number of shares (Shares)	Number of shares (Shares)		
	Balance sheet amount (Millions of yen)	Balance sheet amount (Millions of yen)		
Maruzen Co., Ltd.	2,000	2,000	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	5	3		
Mizuho Financial Group, Inc.	2,152	2,152	The purpose of holding the company's shares is to improve corporate value of the company, a major financial institution of the Company, by facilitating smooth transactions including stable financing, and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 7
	5	3		
Canon Marketing Japan Inc	1,155	1,155	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by ensuring stable supplies of products and services and by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	4	3		
Tsuchiya Holdings Co., Ltd.	13,600	13,600	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	3	2		
Autobacs Seven Co., Ltd.	1,500	1,500	The purpose of holding the company's shares is to improve corporate value of the company, one of the Company's business partners, by maintaining and strengthening the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	2	2		
LIXIL Corporation	—	331	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	—	0		
KOIKE SANSEI KOGYO Co., LTD.	—	133	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	—	0		
TOKYO THEATRES COMPANY Inc.	—	200	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	—	0		

- (Notes) 1. All stocks, including stocks with recorded balance sheet amounts of 1% or less of their capital amounts, are listed.
2. The - symbol indicates that the Company does not hold that stock as of the end of the current fiscal year.
3. The “*” symbol indicates that this information has been omitted because it was not a specified investment stock in the previous fiscal year.
4. Although PERSOL HOLDINGS CO., LTD. does not hold Company shares, its subsidiary, PERSOL TEMPSTAFF CO., LTD., holds Company shares.
5. Although Mitsubishi UFJ Financial Group, Inc. does not hold Company shares, its subsidiaries Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and au Kabucom Securities Co., Ltd. hold Company shares.
6. Although Dai-ichi Life Holdings, Inc. does not hold Company shares, its subsidiary, The Dai-ichi Life Insurance Company, Limited, holds Company shares.
7. Although Mizuho Financial Group, Inc. does not hold Company shares, its subsidiaries, Mizuho Bank, Ltd. and Mizuho Securities Co., Ltd., hold Company shares.

Deemed stocks

Not applicable.

(iii) Investment stocks held for pure investment purposes

Not applicable.

V. Financial Information

1. Basis of preparation of consolidated and non-consolidated financial statements

- (1) Consolidated financial statements of the Group are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).
- (2) Non-consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963, the “Financial Statements Regulation”).

As the Company qualifies as a special company submitting financial statements, the Company prepares its non-consolidated financial statements pursuant to Article 127 of the Financial Statements Regulation.

2. Auditor’s report

Pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Group’s consolidated financial statements and non-consolidated financial statements for the fiscal year (January 1, 2023 to December 31, 2023) were audited by Ernst & Young ShinNihon LLC.

3. Special efforts to ensure the appropriateness of consolidated financial statements, etc.

The Company makes special efforts to ensure the appropriateness of its consolidated financial statements, etc. Specifically, in order to develop a system to ensure appropriate understanding of the content of accounting standards, etc., the Company joins the Financial Accounting Standards Foundation and actively collects information through such measures as participating in training offered by accounting standard setters, etc.

1 Consolidated Financial Statements, Etc.

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	202,288	228,692
Notes and accounts receivable - trade, and contract assets	*1, *4 152,405	*1, *4 155,269
Merchandise	42,636	36,068
Work in process	1,435	1,413
Raw materials and supplies	759	755
Other	35,670	37,689
Allowance for doubtful accounts	(83)	(93)
Total current assets	435,113	459,794
Non-current assets		
Property, plant and equipment		
Buildings and structures	52,879	49,925
Accumulated depreciation and impairment	(38,010)	(36,094)
Buildings and structures, net	14,868	13,831
Land	*3 14,797	*3 14,448
Other	16,482	17,389
Accumulated depreciation and impairment	(10,313)	(10,994)
Other, net	6,169	6,394
Total property, plant and equipment	35,835	34,674
Intangible assets		
Software	15,711	16,006
Other	59	59
Total intangible assets	15,770	16,065
Investments and other assets		
Investment securities	*2 22,678	*2 26,306
Guarantee deposits	2,335	3,108
Deferred tax assets	6,859	8,026
Deferred tax assets for land revaluation	*3 2,833	*3 2,448
Other	1,730	11,507
Allowance for doubtful accounts	(140)	(127)
Total investments and other assets	36,296	51,270
Total non-current assets	87,902	102,010
Total assets	523,016	561,805

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*4 99,517	105,485
Electronically recorded obligations - operating	19,443	19,831
Short-term borrowings	4,400	4,400
Current portion of long-term borrowings	1,700	—
Income taxes payable	9,077	9,495
Contract liabilities	16,139	16,443
Provision for bonuses	3,885	4,480
Other	36,520	43,126
Total current liabilities	190,683	203,263
Non-current liabilities		
Long-term borrowings	—	1,700
Lease obligations	1,413	1,204
Provision for retirement benefits for directors (and other officers)	721	644
Retirement benefit liability	6,360	6,961
Other	1,105	1,080
Total non-current liabilities	9,600	11,591
Total liabilities	200,283	214,854
Net assets		
Shareholders' equity		
Share capital	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	288,660	311,537
Treasury shares	(140)	(141)
Total shareholders' equity	315,149	338,025
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,835	7,424
Deferred gains or losses on hedges	(26)	(35)
Revaluation reserve for land	*3 (6,141)	*3 (5,269)
Foreign currency translation adjustment	200	289
Remeasurements of defined benefit plans	3,371	2,678
Total accumulated other comprehensive income	4,239	5,087
Non-controlling interests	3,343	3,838
Total net assets	322,732	346,950
Total liabilities and net assets	523,016	561,805

(ii) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net sales	*1 861,022	*1 977,370
Cost of sales	676,853	773,392
Gross profit	184,169	203,978
Selling, general and administrative expenses		
Salaries, allowances and bonuses	48,452	53,674
Remuneration for directors (and other officers)	551	578
Welfare expenses	9,260	10,263
Rent expenses	8,098	7,985
Transportation and storage costs	27,760	28,726
Provision for bonuses	2,601	3,088
Retirement benefit expenses	1,863	1,852
Provision for retirement benefits for directors (and other officers)	53	47
Provision of allowance for doubtful accounts	89	98
Depreciation	6,296	6,258
Other	24,374	28,444
Total selling, general and administrative expenses	*2 129,400	*2 141,019
Operating profit	54,768	62,959
Non-operating income		
Interest income	17	18
Dividend income	253	380
Rental income from buildings	227	202
Income from recycling	230	199
Share of profit of entities accounted for using equity method	661	825
Foreign exchange gains	335	362
Other	295	234
Total non-operating income	2,022	2,224
Non-operating expenses		
Interest expenses	43	41
Donations	100	619
Other	7	5
Total non-operating expenses	151	665
Ordinary profit	56,639	64,517
Extraordinary income		
Gain on sale of non-current assets	*3 460	*3 707
Gain on sale of investment securities	687	119
Other	—	12
Total extraordinary income	1,147	839
Extraordinary losses		
Loss on retirement of non-current assets	*4 65	*4 26
Impairment losses	1,120	245
Loss on valuation of investment securities	91	190
Other	—	2
Total extraordinary losses	1,277	464
Profit before income taxes	56,509	64,892
Income taxes - current	16,840	17,542
Income taxes - deferred	(842)	(738)
Total income taxes	15,998	16,803
Profit	40,511	48,089
Profit attributable to non-controlling interests	488	640
Profit attributable to owners of parent	40,022	47,448

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit	40,511	48,089
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,924)	585
Deferred gains or losses on hedges	(43)	(10)
Revaluation reserve for land	3,449	—
Remeasurements of defined benefit plans, net of tax	1,830	(689)
Share of other comprehensive income of entities accounted for using equity method	88	91
Total other comprehensive income	* 3,400	* (22)
Comprehensive income	43,911	48,066
(Breakdown)		
Comprehensive income attributable to owners of parent	43,445	47,424
Comprehensive income attributable to non-controlling interests	466	641

(iii) Consolidated Statements of Changes in Equity

I Fiscal year ended December 31, 2022

(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	272,834	(139)	299,323
Cumulative effects of changes in accounting policies			(47)		(47)
Restated balance	10,374	16,254	272,786	(139)	299,276
Changes during period					
Dividends of surplus			(22,752)		(22,752)
Profit attributable to owners of parent			40,022		40,022
Reversal of revaluation reserve for land			(1,396)		(1,396)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	15,873	(0)	15,873
Balance at end of period	10,374	16,254	288,660	(140)	315,149

	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	8,734	8	(10,987)	151	1,513	(580)	3,030	301,774
Cumulative effects of changes in accounting policies								(47)
Restated balance	8,734	8	(10,987)	151	1,513	(580)	3,030	301,726
Changes during period								
Dividends of surplus								(22,752)
Profit attributable to owners of parent								40,022
Reversal of revaluation reserve for land								(1,396)
Purchase of treasury shares								(0)
Net changes in items other than shareholders' equity	(1,898)	(35)	4,846	49	1,858	4,819	312	5,132
Total changes during period	(1,898)	(35)	4,846	49	1,858	4,819	312	21,005
Balance at end of period	6,835	(26)	(6,141)	200	3,371	4,239	3,343	322,732

II Fiscal year ended 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

	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

(iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	56,509	64,892
Depreciation	8,290	7,934
Impairment losses	1,120	245
Increase (decrease) in allowance for doubtful accounts	32	22
Interest and dividend income	(270)	(398)
Interest expenses	43	41
Share of loss (profit) of entities accounted for using equity method	(661)	(825)
Loss on retirement of non-current assets	65	26
Loss (gain) on sale of non-current assets	(460)	(707)
Loss (gain) on sale of investment securities	(687)	(116)
Loss (gain) on valuation of investment securities	91	190
Decrease (increase) in trade receivables	(23,806)	(2,875)
Decrease (increase) in inventories	(9,716)	6,595
Increase (decrease) in trade payables	14,782	6,357
Other, net	(36)	6,841
Subtotal	45,297	88,221
Interest and dividends received	527	726
Interest paid	(43)	(39)
Income taxes paid	(16,584)	(17,258)
Net cash provided by (used in) operating activities	29,196	71,649
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,249)	(3,990)
Proceeds from sale of property, plant and equipment	969	1,672
Purchase of software	(5,828)	(6,356)
Purchase of investment securities	(2,707)	(2,407)
Proceeds from sale of investment securities	743	129
Payments into time deposits	—	(10,000)
Long-term loan advances	(150)	—
Other, net	(133)	(521)
Net cash provided by (used in) investing activities	(8,355)	(21,473)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(400)	—
Proceeds from long-term borrowings	—	1,700
Repayments of long-term borrowings	—	(1,700)
Dividends paid	(22,753)	(23,691)
Other, net	(153)	(147)
Net cash provided by (used in) financing activities	(23,307)	(23,839)
Effect of exchange rate change on cash and cash equivalents	(4)	3
Net increase (decrease) in cash and cash equivalents	(2,471)	26,340
Cash and cash equivalents at beginning of period	205,746	203,274
Cash and cash equivalents at end of period	* 203,274	* 229,615

[Notes to consolidated financial statements]

(Matters concerning going concern assumption)

Not applicable.

(Significant matters providing the basis for the preparation of consolidated financial statements)

1. Matters concerning the scope of consolidation

Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries

OSK Co., LTD.

Networld Corporation

Alpha Techno Co., LTD.

Alpha Net Co., LTD.

Otsuka Auto Service Co., LTD. and three other subsidiaries which have been excluded from the scope of consolidation are all small in scale, and their aggregate total assets, net sales, profit/loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc. all have little impact on the consolidated financial statements.

2. Matters concerning application of the equity method

Number of affiliates accounted for using the equity method: 3

Names of companies, etc.

Otsuka Information Technology Corp.

LION OFFICE PRODUCTS CORP.

RO Holdings, Co., Ltd.

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

Otsuka Auto Service Co., LTD. and three other unconsolidated subsidiaries and Otsuka Business Service Co., LTD. and two other affiliates which have been excluded from the scope of the application of the equity method are not accounted for using the equity method, as the scale of each subsidiary and affiliate is small and they do not have any material impact on consolidated financial statements in terms of each company's profit/loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc. and have no significance as a whole, even if they are excluded from the scope of the application of the equity method.

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

The fiscal year-end of all consolidated subsidiaries is the same as the consolidated fiscal year-end.

4. Matters concerning accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

Available-for-sale securities

Securities other than stocks, etc. that do not have a market price

Securities other than stocks, etc. that do not have a market price are recognized at fair value.

(Unrealized gains/losses on securities are directly charged to net assets, while cost of sales is determined by the moving-average method.)

Stocks, etc. that do not have a market price

Stocks, etc. that do not have a market price are stated at cost, determined by the moving-average method.

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

The net amount equivalent to the Company’s partnership investment gain or loss under the equity method was recognized based on the latest available financial statements of the corresponding limited partnerships.

(ii) Derivatives

Derivatives are recognized at fair value.

(iii) Inventories

Inventories held for ordinary sales purposes

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

Merchandise

Primarily, moving-average method

Work in process

Specific identification method

Raw materials and supplies

Primarily, moving-average method

(2) Depreciation methods for significant depreciable assets

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

Declining-balance method

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

Estimated useful lives of assets are principally as follows:

Buildings and structures	15 to 50 years
--------------------------	----------------

Other	4 to 10 years
-------	---------------

(ii) Intangible assets (excluding leased assets)

Software to be sold

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

Software for internal use

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

(iii) Leased assets

Finance leased assets, which do not transfer ownership of the assets at the end of the lease term

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

(3) Basis for recognition of significant allowance and 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

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

(iii) Provision for retirement benefits for directors (and other officers)

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

(4) Accounting methods for retirement benefits

(i) Method to attribute expected benefit to periods of service

Retirement benefit obligations for employees are attributed to each period by the benefit formula basis over the estimated years of service of the eligible employees.

(ii) Method of recording actuarial gains and losses and prior service costs

Prior service cost is amortized as incurred by the straight-line method over certain periods (mainly 11 years), which are shorter than the average remaining years of service of the employees.

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

(5) Basis 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.

(i) 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 the following four phases—1. requirements definition, 2. design, 3. construction, and 4. operation setup and migration—and contracts are entered into in phases, subject to passing an acceptance inspection. In phases 2. design and 3. construction, the asset value increases as the obligations under a contract are performed, and the customer acquires greater control of the relevant asset as its value increases. Accordingly, revenues are recognized based on 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 short-duration contracts 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 such products individually or combine with other resources easily, it is judged that they are individual performance obligations. Accordingly, revenues are recognized at specific points of time as described above.

(ii) 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 stationery 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.

(6) Significant foreign currency translation

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

(7) Significant hedge accounting

(i) Hedge accounting method

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

(ii) Hedging instruments and hedged items

a. Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

b. Hedging instruments: Interest rate swaps

Hedged items: Borrowings

(iii) Hedge policy

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

(iv) Evaluation of hedging effectiveness

The Group assesses their hedging effectiveness by comparing the cumulative changes in fair value of hedging instruments with the cumulative changes in fair value of hedged items based on the fluctuation amounts, etc. of the two. The effectiveness assessment is omitted when the substantial terms and conditions of the hedging instruments and hedged items are the same, and the market fluctuations are expected to be completely offset. In addition, the assessment of the effectiveness is omitted for interest rate swaps that meet the criteria for application of the exceptional treatment for the recognition of derivatives at fair value.

(8) Scope of funds in the consolidated statements of cash flows

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

(Significant accounting estimates)

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

(Changes in accounting policies)

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

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

(Accounting standards, etc. not yet adopted)

“Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022)

“Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022)

“Implementation Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

These accounting standards and implementation guidance prescribe the classifications of income taxes in the case where other comprehensive income is taxed, and the treatment of tax effects related to the sale of shares, etc. of subsidiaries in the case where the group taxation regime is applied.

(2) Scheduled date of adoption

The Group expects to adopt these accounting standards and implementation guidance from the beginning of the fiscal year ending December 31, 2025.

(3) Impact of the adoption of implementation guidance

The Group is currently evaluating the impact of the adoption of these accounting standards and implementation guidance on the consolidated financial statements.

(Consolidated balance sheets)

- *1. Amounts of receivables arising from contracts with customers and contract assets, included in notes and accounts receivable - trade, and contract assets, were as follows:

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Notes receivable	3,890	4,515
Accounts receivable	147,594	149,758
Contract assets	920	995

- *2. Principal items related to unconsolidated subsidiaries and affiliates were as follows:

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Investment securities (stock)	7,799	8,400
Investment securities (investments in capital)	217	217

- *3. Pursuant to the “Act on Revaluation of Land” (No. 34 on March 31, 1998), and “Act on Partial Amendment to the Act on Revaluation of Land” (No. 19 on March 31, 2001), the Company revalued land used for business activities. The amount of revaluation difference, net of deferred tax liabilities for land revaluation, was recorded as “Revaluation reserve for land” under net assets in the accompanying consolidated balance sheets.

Revaluation method provided in Article 3, Paragraph 3 of the “Act on Revaluation of Land”

The Company revalued land using the land price stipulated in Article 2, Item 4 of the “Order for Enforcement of Act on Revaluation on Land” (No. 119, March 31, 1998), and the property tax assessment value provided in Article 2, Item 3 for land without land price after making reasonable adjustments for land shape and so on.

The date of land revaluation: December 31, 2001

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Differences between year-end fair value and carrying value after land revaluation	893	1,174

- *4. December 31, 2022 and 2023 were bank holidays, and notes matured at the balance sheet date were accounted for as if they were settled on the maturity dates.

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Notes receivable	419	478
Notes payable	3	—

(Consolidated statements of income)

*1. Revenues arising from contracts with customers

The Group does not distinguish between revenues arising from contracts with customers and other revenues. The amount of revenues arising from contracts with customers is presented in “Notes (Revenue recognition), 1. Disaggregation of revenues arising from contracts with customers” in the consolidated financial statements.

*2. Total research and development expenses were as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Research and development expenses included in general and administrative expenses and manufacturing costs for the current fiscal year	1,205	1,566

*3. Gain on sale of non-current assets were as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Buildings and structures	229	454
Land	229	252
Other property, plant and equipment	1	1
Total	460	707

*4. Loss on retirement of non-current assets were as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Buildings and structures	41	8
Other property, plant and equipment	20	15
Software	3	1
Total	65	26

(Consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects related to other comprehensive income

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Valuation difference on available-for-sale securities		
Amount arising during the year	(2,070)	853
Reclassification adjustments	(687)	(0)
Amount before tax effect	(2,758)	852
Tax effect	834	(266)
Valuation difference on available-for-sale securities	(1,924)	585
Deferred gains or losses on hedges		
Amount arising during the year	158	103
Reclassification adjustments	(221)	(118)
Amount before tax effect	(62)	(14)
Tax effect	19	4
Deferred gains or losses on hedges	(43)	(10)
Revaluation reserve for land		
Amount arising during the year	—	—
Reclassification adjustments	—	—
Amount before tax effect	—	—
Tax effect	3,449	—
Revaluation reserve for land	3,449	—
Remeasurements of defined benefit plans		
Amount arising during the year	3,221	(319)
Reclassification adjustments	(580)	(676)
Amount before tax effect	2,640	(995)
Tax effect	(810)	305
Remeasurements of defined benefit plans	1,830	(689)
Share of other comprehensive income of entities accounted for using equity method		
Amount arising during the year	85	90
Reclassification adjustments	2	1
Share of other comprehensive income of entities accounted for using equity method	88	91
Total other comprehensive income	3,400	(22)

(Consolidated statements of changes in equity)

I Fiscal year ended December 31, 2022

1. Items related to shares issued

(Thousands of shares)

Class of shares	Number of shares at the beginning of the current fiscal year	Increase in the number of shares in the current fiscal year	Decrease in the number of shares in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	190,002	—	—	190,002

2. Items related to treasury shares

(Thousands of shares)

Class of shares	Number of shares at the beginning of the current fiscal year	Increase in the number of shares in the current fiscal year	Decrease in the number of shares in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	400	0	—	401

(Note) The 0 thousand shares increase in the number of treasury shares of common shares is due to the purchase of shares of less than one unit.

3. Items related to share acquisition rights

Not applicable.

4. Items related to dividends

(1) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 29, 2022 Annual General Meeting of Shareholders	Common shares	22,752	120.00	December 31, 2021	March 30, 2022

(Note) Dividend per share includes the 60th anniversary commemorative dividend of ¥5.

(2) Dividends whose record date falls in the current fiscal year but whose effective date falls in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
March 29, 2023 Annual General Meeting of Shareholders	Common shares	23,700	Retained earnings	125.00	December 31, 2022	March 30, 2023

II Fiscal year ended December 31, 2023

1. Items related to shares issued

(Thousands of shares)

Class of shares	Number of shares at the beginning of the current fiscal year	Increase in the number of shares in the current fiscal year	Decrease in the number of shares in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	190,002	—	—	190,002

2. Items related to treasury shares

(Thousands of shares)

Class of shares	Number of shares at the beginning of the current fiscal year	Increase in the number of shares in the current fiscal year	Decrease in the number of shares in the current fiscal year	Number of shares at the end of the current fiscal year
Common shares	401	0	—	401

(Note) The 0 thousand shares increase in the number of treasury shares of common shares is due to the purchase of shares of less than one unit.

3. Items related to share acquisition rights

Not applicable.

4. Items related to dividends

(1) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 29, 2023 Annual General Meeting of Shareholders	Common shares	23,700	125.00	December 31, 2022	March 30, 2023

(2) Dividends whose record date falls in the current fiscal year but whose effective date falls in the following fiscal year

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
March 27, 2024 Annual General Meeting of Shareholders	Common shares	25,596	Retained earnings	135.00	December 31, 2023	March 28, 2024

(Consolidated statements of cash flows)

* Reconciliation of cash and cash equivalents at the end of the year to the items reported in the consolidated balance sheets

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash and deposits	202,288	228,692
Time deposits with deposit terms of more than three months	(40)	(40)
Trust beneficiary interests included in other current assets with investment terms of three months or less	1,026	963
Cash and cash equivalents	203,274	229,615

(Lease transactions)

1. Finance lease transactions (as a lessee)

The disclosure is omitted because finance lease transactions were immaterial.

2. Operating lease transactions (as a lessee)

Future minimum lease payments under non-cancelable operating leases

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Due within one year	1,159	1,330
Due after one year	9,523	8,921
Total	10,682	10,251

(Financial instruments)

1. Financial instruments

(1) Policy for financial instruments

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

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

Trade receivables, including trade notes and accounts receivable, are exposed to customer credit risk. The Group works to promptly identify and reduce credit risk by monitoring and analyzing the creditworthiness of each customer, as well as managing due dates and balances.

Investment securities are mainly the securities of entities with which the Group has operational relationships. Although listed securities are exposed to risk of market price fluctuations, the Group regularly monitors and analyze the fair value and the issuers' financial status to reduce potential impairment risk.

Trade payables, including trade notes and accounts payable, electronically recorded obligations, are mostly due within three months. Short-term borrowings and long-term borrowings (including current portion) are financed mainly for working capital.

Trade notes and accounts payable, electronically recorded obligations, short-term borrowings, income taxes payable, and other monetary payables are exposed to liquidity risk. The Group reduces liquidity risk relating to these payables by developing a cash flow plan. Concerning long-term borrowings (including current portion), which are exposed to interest rate fluctuation risk, the Company hedges the risk by using interest rate swap transactions.

Derivative transactions are interest rate swaps entered into by the Company and forward foreign exchange contracts entered into by one of the consolidated subsidiaries. The execution and management of such transactions are subject to internal rules that stipulate transaction authority.

2. Fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets, fair value and their difference were as follows:

I As of December 31, 2022

(Millions of yen)

	Carrying value	Fair value	Difference
(1) Investment securities (*2)			
(i) Available-for-sale securities	11,405	11,405	—
(ii) Investments in affiliates	1,380	2,435	1,055
Total assets	12,785	13,841	1,055
(2) Long-term borrowings(*3)	1,700	1,700	0
Total liabilities	1,700	1,700	0
Derivative transactions (*4)			
Derivative transactions to which hedge accounting is not applied	[81]	[81]	—
Derivative transactions to which hedge accounting is applied	[47]	[47]	—
Total derivative transactions	[129]	[129]	—

(*1) “Cash and deposits,” “notes and accounts receivable - trade,” “notes and accounts payable - trade,” “electronically recorded obligations - operating,” “short-term borrowings” and “income taxes payable” are omitted, because they are cash and their fair value approximates their carrying value due to their short maturities.

- (*2) Stocks, etc. that do not have a market price are not included in “(1) Investment securities.” The carrying value of these financial instruments on the consolidated balance sheet was as follows:

(Millions of yen)

Category	As of December 31, 2022
Unlisted stocks, etc.	9,867

In addition, descriptions on investments in limited partnerships and similar entities which are recorded at a net amount corresponding to the equity interest on the consolidated balance sheet were omitted. The carrying value of such investments on the consolidated balance sheet was ¥25 million.

- (*3) “(2) Long-term borrowings” include the current portion.
 (*4) Net receivables and payables arising from derivative transactions are shown on a net basis, with the amount in brackets representing a net liability position.

II As of December 31, 2023

(Millions of yen)

	Carrying value	Fair value	Difference
(1) Investment securities (*2)			
(i) Available-for-sale securities	14,020	14,020	—
(ii) Investments in 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
Derivative transactions (*3)			
Derivative transactions to which hedge accounting is not applied	[9]	[9]	—
Derivative transactions to which hedge accounting is applied	[61]	[61]	—
Total derivative transactions	[71]	[71]	—

- (*1) “Cash and deposits,” “notes and accounts receivable - trade,” “notes and accounts payable - trade,” “electronically recorded obligations - operating,” “short-term borrowings” and “income taxes payable” are omitted, because they are cash and their fair value approximates their carrying value due to their short maturities.
 (*2) Stocks, etc. that do not have a market price are not included in “(1) Investment securities.” The carrying value of these financial instruments on the consolidated balance sheet was as follows:

(Millions of yen)

Category	As of December 31, 2023
Unlisted stocks, etc.	10,669

In addition, descriptions on investments in limited partnerships and similar entities which are recorded at a net amount corresponding to the equity interest on the consolidated balance sheet were omitted pursuant to Paragraph 24-16 of Implementation Guidance on Fair Value Measurement. The carrying value of such investments on the consolidated balance sheet was ¥22 million.

- (*3) Net receivables and payables arising from derivative transactions are shown on a net basis, with the amount in brackets representing a net liability position.

(Notes)

1. Scheduled repayment of monetary receivables after the consolidated balance sheet date is as follows:

I As of December 31, 2022

(Millions of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	202,288	—	—	—
Notes receivable	3,890	—	—	—
Accounts receivable	147,594	—	—	—
Total	353,772	—	—	—

II As of December 31, 2023

(Millions of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	228,692	—	—	—
Notes receivable	4,515	—	—	—
Accounts receivable	149,758	—	—	—
Total	382,966	—	—	—

2. Scheduled repayment of long-term borrowings and other interest-bearing debt after the consolidated balance sheet date is as follows:

I As of December 31, 2022

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	4,400	—	—	—	—	—
Long-term borrowings(*)	1,700	—	—	—	—	—

(*) "Long-term borrowings" include the current portion.

II As of December 31, 2023

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term borrowings	4,400	—	—	—	—	—
Long-term borrowings	—	—	1,700	—	—	—

3. Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial instruments measured at fair value

I As of December 31, 2022

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	11,405	—	—	11,405
Total assets	11,405	—	—	11,405
Derivative transactions				
Currency-related transactions	—	129	—	129
Total liabilities	—	129	—	129

II As of December 31, 2023

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Stocks	14,020	—	—	14,020
Total assets	14,020	—	—	14,020
Derivative transactions				
Currency-related transactions	—	71	—	71
Total liabilities	—	71	—	71

(2) Financial instruments other than those measured at fair value

I As of December 31, 2022

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in affiliates	2,435	—	—	2,435
Total assets	2,435	—	—	2,435
Long-term borrowings (*)	—	1,700	—	1,700
Total liabilities	—	1,700	—	1,700

(*) "Long-term borrowings" include the current portion.

II As of December 31, 2023

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in 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) A description of the valuation techniques and inputs used in the fair value measurements

Investment securities

Listed stocks are valued using quoted prices. As listed stocks are traded in active markets, their fair value is classified as Level 1.

Derivative transactions

The fair value of forward foreign exchange contracts is measured using value quoted by counterparty financial institutions, and is classified as Level 2.

Long-term borrowings

The fair value of long-term borrowings is measured using the discounted cash flow method based on the sum of principal and interest, remaining maturities and an interest rate reflecting credit risk, and is classified as Level 2.

(Securities)

1. Trading securities

Not applicable.

2. Held-to-maturity debt securities

Not applicable.

3. Available-for-sale securities

I As of December 31, 2022

(Millions of yen)

	Class	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stocks	11,191	1,608	9,582
	(2) Debt securities			
	(i) Government bonds / local government bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	213	121	92
	Subtotal	11,405	1,730	9,675
Securities whose carrying value does not exceed their acquisition cost	(1) Stocks	0	0	(0)
	(2) Debt securities			
	(i) Government bonds / local government bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	0	0	(0)
Total		11,405	1,730	9,675

(Note) Unlisted stocks (carrying value of ¥3,230 million on the consolidated balance sheet) and investments in limited partnerships, etc. (carrying value of ¥25 million on the consolidated balance sheet) are not included in “available-for-sale securities” in the above table, because they are stocks, etc. that do not have a market price.

(Millions of yen)

	Class	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	(1) Stocks	13,793	3,563	10,229
	(2) Debt securities			
	(i) Government bonds / local government bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	227	126	100
	Subtotal	14,020	3,690	10,330
Securities whose carrying value does not exceed their acquisition cost	(1) Stocks	—	—	—
	(2) Debt securities			
	(i) Government bonds / local government bonds, etc.	—	—	—
	(ii) Corporate bonds	—	—	—
	(iii) Other	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		14,020	3,690	10,330

(Note) Unlisted stocks (carrying value of ¥3,645 million on the consolidated balance sheet) and investments in limited partnerships, etc. (carrying value of ¥22 million on the consolidated balance sheet) are not included in “available-for-sale securities” in the above table, because they are stocks, etc. that do not have a market price.

4. Available-for-sale securities sold during the fiscal year

I Fiscal year ended December 31, 2022

(Millions of yen)

Class	Sales amount	Total gains on sales	Total losses on sales
(1) Stocks	743	687	—
(2) Debt securities			
(i) Government bonds / local government bonds, etc.	—	—	—
(ii) Corporate bonds	—	—	—
(iii) Other	—	—	—
(3) Other	—	—	—
Total	743	687	—

II Fiscal year ended December 31, 2023

(Millions of yen)

Class	Sales amount	Total gains on sales	Total losses on sales
(1) Stocks	129	119	2
(2) Debt securities			
(i) Government bonds / local government bonds, etc.	—	—	—
(ii) Corporate bonds	—	—	—
(iii) Other	—	—	—
(3) Other	—	—	—
Total	129	119	2

5. Securities impaired

In the previous fiscal year, impairment losses of ¥91 million were recognized for available-for-sale securities. In the current fiscal year, impairment losses of ¥190 million were recognized for available-for-sale securities.

For securities other than stocks, etc. that do not have a market price, the ones whose fair value as of the year-end are 50% or less of the acquisition costs which are considered as not recoverable are impaired in the amounts of fallen value and more than 50% but less than 70% are impaired in required amounts in consideration of the recoverability.

In addition, for stocks, etc. that do not have a market price, those whose substantial value as of the year-end are 50% or less of the acquisition costs due to the worsening of the issuers' financial situation are impaired except in the case that there is sufficient evidence to support the recoverability.

(Derivatives)

1. Derivative transactions to which hedge accounting is not applied

Currency-related transactions

I As of December 31, 2022

(Millions of yen)

Category	Type of transactions	Contractual value or notional principal amount	Over one year	Fair value	Valuation gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts Buy U.S. dollar	1,641	—	(81)	(81)
Total		1,641	—	(81)	(81)

II As of December 31, 2023

(Millions of yen)

Category	Type of transactions	Contractual value or notional principal amount	Over one year	Fair value	Valuation gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts Buy U.S. dollar	1,271	—	(9)	(9)
Total		1,271	—	(9)	(9)

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related transactions

I As of December 31, 2022

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Main hedged items	Contractual value or notional principal amount	Over one year	Fair value
Deferred hedge accounting	Forward foreign exchange contracts Buy U.S. dollar	Forecasted transactions denominated in foreign currencies	1,602	—	(47)
Total			1,602	—	(47)

II As of December 31, 2023

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Main hedged items	Contractual value or notional principal amount	Over one year	Fair value
Deferred hedge accounting	Forward foreign exchange contracts Buy U.S. dollar	Forecasted transactions denominated in foreign currencies	3,092	—	(61)
Total			3,092	—	(61)

(2) Interest rate-related transactions

I As of December 31, 2022

(Millions of yen)

Hedge accounting method	Type of derivative transactions	Main hedged items	Contractual value or notional principal amount	Over one year	Fair value
Exceptional treatment for interest rate swaps	Interest rate swaps Pay/fixed and receive/floating	Long-term borrowings (including current portion)	1,700	—	(Note)

(Note) As interest-rate swaps which meet the criteria for application of the exceptional treatment for the recognition of derivatives are accounted for together with long-term borrowings (including current portion), their fair value is included in the fair value of long-term borrowings (including current portion) designated as the hedged item.

II As of December 31, 2023

Not applicable.

(Retirement benefits)

1. Retirement benefit plans

The Company and its consolidated subsidiaries have defined contribution pension plans, agreement-type corporate pension plans and lump-sum plans as retirement benefit plans. Of the consolidated companies as of December 31, 2023, four have enrolled in defined contribution pension plans, three in agreement-type corporate pension plans and five in lump-sum plans.

The Company and its consolidated subsidiaries that have the lump-sum retirement benefit plans calculate their retirement benefit liability and retirement benefit expenses using the simplified method.

One consolidated subsidiary participates in the multi-employer pension plan. Because it is not possible to reasonably calculate the amount of plan assets corresponding to the company's contribution, it is accounted for in the same way as the defined contribution plans.

The Group may pay additional benefits upon employees' retirement.

2. Defined benefit pension plans

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

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at the beginning of the year	55,251	52,253
Service costs	2,474	2,233
Interest costs	109	367
Actuarial loss (gain)	(3,144)	302
Retirement benefits paid	(2,436)	(1,968)
Balance at the end of the year	52,253	53,188

(2) Changes in plan assets

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at the beginning of the year	46,687	46,572
Actuarial gain (loss)	76	(16)
Contribution paid by the employer	2,177	2,209
Retirement benefits paid	(2,367)	(1,875)
Balance at the end of the year	46,572	46,889

(3) Changes in retirement benefit liability of the plans that apply the simplified method

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at the beginning of the year	645	679
Retirement benefit expenses	96	99
Retirement benefits paid	(61)	(116)
Balance at the end of the year	679	662

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

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Funded retirement benefit obligations	49,199	49,937
Plan assets	(46,572)	(46,889)
	2,626	3,047
Unfunded retirement benefit obligations	3,733	3,914
Total net retirement benefit liability and asset	6,360	6,961
Retirement benefit liability	6,360	6,961
Total net retirement benefit liability and asset	6,360	6,961

(Note) Plans to which simplified methods are applied are included.

(5) Components of retirement benefit expenses

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Service costs	2,474	2,233
Interest costs	109	367
Amortization of actuarial differences	(476)	(679)
Amortization of prior service costs	(104)	2
Retirement benefit expenses calculated by the simplified method	96	99
Additional benefits for employees' retirement	7	16
Retirement benefit expenses	2,106	2,040

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

Components of items (before tax) were as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Prior service costs	(104)	2
Actuarial differences	2,744	(998)
Total	2,640	(995)

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

Components of items (before tax) were as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Unrecognized prior service costs	33	30
Unrecognized actuarial differences	(4,850)	(3,852)
Total	(4,817)	(3,821)

(8) Items for plan assets

(i) Major components of plan assets

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

	As of December 31, 2022	As of December 31, 2023
Cash and deposits	86 %	86 %
Life insurance general accounts	14 %	14 %
Total	100 %	100 %

(ii) Method of determining the long-term expected rate of return on plan assets

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

(9) Items related to actuarial assumptions

The major actuarial assumptions (indicated as a weighted average)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Discount rate	0.7 %	0.7 %
Long-term expected rate of return on plan assets	0.0 %	0.0 %
Projected rate of salary increase	7.1 %	7.1 %

(Note) Projected rate of salary increase is calculated based on a point-based plan.

3. Defined contribution pension plans

Required contributions to defined contribution pension plans of the Company and its consolidated subsidiaries for the previous and current fiscal years were ¥817 million and ¥831 million, respectively.

4. Multi-employer pension plan

Required contributions to the multi-employer pension plan which was treated in the same way as the defined contribution pension plans for the previous and current fiscal years were ¥27 million and ¥28 million, respectively.

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

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Plan assets	56,574	55,007
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	54,852	53,285
Difference	1,721	1,721

(2) The contribution ratio of the Group to the multi-employer pension plan

Previous fiscal year: 1.4% (As of March 31, 2022)

Current fiscal year: 1.5% (As of March 31, 2023)

(3) Supplementary information

The main factor of the difference shown in (1) above is general reserve (previous fiscal year: ¥1,721 million, current fiscal year: ¥1,721 million).

The ratio in (2) above does not represent the actual ratio borne by the Group.

(Tax effect accounting)

1. Significant components of deferred tax assets and liabilities

	(Millions of yen)	
	As of December 31, 2022	As of December 31, 2023
Deferred tax assets		
Allowance for doubtful accounts	68	67
Accrued enterprise taxes	661	759
Provision for bonuses	1,192	1,374
Retirement benefit liability	3,431	2,133
Provision for retirement benefits for directors (and other officers)	221	197
Impairment losses	1,165	1,174
Software development costs	1,757	2,405
Unrealized profit from non-current assets	362	350
Other	1,225	3,084
Subtotal	10,084	11,547
Less: Valuation allowance	(109)	(122)
Total deferred tax assets	9,974	11,424
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(3,008)	(3,275)
Other	(107)	(123)
Total deferred tax liabilities	(3,115)	(3,398)
Net deferred tax assets	6,859	8,026

2. A reconciliation of the material differences between the effective statutory tax rates and actual effective tax rates

	As of December 31, 2022	As of December 31, 2023
Effective statutory tax rate	30.6%	30.6%
(Adjustments)		
Permanent difference such as entertainment expenses	0.3%	0.3%
Share of loss (profit) of entities accounted for using equity method	(0.4)%	(0.4)%
Changes in valuation allowance	(1.5)%	0.0%
Tax credits	(0.9)%	(4.9)%
Other	0.2%	0.3%
Actual effective tax rate	28.3%	25.9%

(Asset retirement obligations)

The disclosure is omitted because asset retirement obligations were immaterial.

(Investment and rental properties)

The disclosure is omitted because asset retirement obligations were immaterial.

(Revenue recognition)

1. Disaggregation of revenues arising from contracts with customers

I Fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segment		Total
	System Integration Business	Service and Support Business	
SI-related products	491,041	—	491,041
Consigned software, etc.	50,630	—	50,630
Supply	—	171,295	171,295
Maintenance, etc.	—	148,055	148,055
Revenues arising from contracts with customers	541,671	319,350	861,022
Other revenues	—	—	—
Net sales to external customers	541,671	319,350	861,022

(Note) “SI-related products” represent the sale 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.

“Supply” represents the sale of office supplies and stationery products.

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

II Fiscal year ended December 31, 2023

(Millions of yen)

	Reportable segment		Total
	System Integration Business	Service and Support Business	
SI-related products	572,117	—	572,117
Consigned software, etc.	58,068	—	58,068
Supply	—	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 sale 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.

“Supply” represents the sale of office supplies and stationery products.

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

2. Useful information in understanding revenues arising from contracts with customers

Useful information in understanding revenue is as presented in “Notes to consolidated financial statements, (Significant matters providing the basis for the preparation of consolidated financial statements), 4. Matters concerning accounting policies, (5) Basis for recognition of significant revenues and expenses.”

3. Reconciliation of satisfaction of performance obligations within contracts with customers and cash flows arising from such contracts, and the amount and timing of revenue arising from customers existing at the end of the current fiscal year expected to be recognized in and after the following fiscal year

(1) Balances, etc. of contract assets and liabilities

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Receivables arising from contracts with customers (beginning balance)	127,974	151,484
Receivables arising from contracts with customers (ending balance)	151,484	154,273
Contract assets (beginning balance)	647	920
Contract assets (ending balance)	920	995
Contract liabilities (beginning balance)	15,930	16,139
Contract liabilities (ending balance)	16,139	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 receivables arising from contracts with customers. Once the performance obligation is fully satisfied, conditions other than the passage of time are resolved, and the corresponding contract asset amount transfers to receivables 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 fiscal year ended December 31, 2022 is ¥10,569 million.

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 fiscal year ended December 31, 2023 is ¥10,708 million.

(2) Transaction price allocated to remaining performance obligations

The Company and its consolidated subsidiaries have applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations. As there are no contracts with an original expected duration of one year or more, the disclosure is omitted. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

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

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

Therefore, the Company is composed of two reportable segments, "System Integration Business" and "Service and Support Business."

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

2. Basis of measurement of reportable segment net sales, segment profit or loss, segment assets and other items

The accounting method used for the Group's reported business segments is substantially the same as that provided in "Significant matters providing the basis for the preparation of consolidated financial statements." Also, segment profit is equivalent to operating profit. Inter-segment transactions are based on prevailing market prices.

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

I Fiscal year ended December 31, 2022

(Millions of yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	System Integration Business	Service and Support Business			
Net sales					
Net sales to external customers	541,671	319,350	861,022	—	861,022
Inter-segment sales/transfers	71	552	623	(623)	—
Total	541,743	319,902	861,645	(623)	861,022
Segment profit	51,791	12,522	64,313	(9,545)	54,768
Segment assets	194,460	126,630	321,091	201,924	523,016
Other items					
Depreciation (Note 3)	4,451	3,208	7,659	629	8,289
Investments in affiliates accounted for using equity method	1,380	6,282	7,662	—	7,662
Increase in property, plant and equipment and intangible assets	4,106	2,895	7,001	76	7,077

(Notes) 1. Details of the adjustment are as follows:

- (1) The adjustment for segment profit of ¥(9,545) million primarily includes companywide expenses not allocated to the reportable segments of ¥(9,546) million. Companywide expenses consist mainly of expenses related to administrative operations that are not attributable to any reportable segments.
 - (2) The adjustment for segment assets of ¥201,924 million primarily includes companywide assets of ¥203,578 million. Companywide assets consist mainly of surplus funds (cash and deposits and investment securities) of the parent company that do not belong to any reportable segment and assets related to the administrative division of the parent company.
 - (3) The adjustment for depreciation under other items of ¥629 million is primarily depreciation expenses related to companywide assets. The adjustment of ¥76 million for increase in property, plant and equipment and intangible assets is primarily an increase related to companywide assets.
2. Segment profit is reconciled with operating profit in the consolidated statements of income.
 3. Depreciation under other items includes the relevant amount of long-term prepaid expenses.

II Fiscal year ended December 31, 2023

(Millions of yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	System Integration Business	Service and Support Business			
Net sales					
Net sales to external customers	630,185	347,185	977,370	—	977,370
Inter-segment sales/transfers	97	609	706	(706)	—
Total	630,282	347,794	978,077	(706)	977,370
Segment profit	57,581	15,836	73,418	(10,458)	62,959
Segment assets	200,886	128,871	329,758	232,047	561,805
Other items					
Depreciation (Note 3)	4,235	3,078	7,314	619	7,934
Investments in affiliates accounted for using equity method	1,593	6,669	8,263	—	8,263
Increase in property, plant and equipment and intangible assets	4,844	5,248	10,092	253	10,346

(Notes) 1. Details of the adjustment are as follows:

- (1) The adjustment for segment profit of ¥(10,458) million primarily includes companywide expenses not allocated to the reportable segments of ¥(10,432) million. Companywide expenses consist mainly of expenses related to administrative operations that are not attributable to any reportable segments.
 - (2) The adjustment for segment assets of ¥232,047 million primarily includes companywide assets of ¥233,496 million. Companywide assets consist mainly of surplus funds (cash and deposits and investment securities) of the parent company that do not belong to any reportable segment and assets related to the administrative division of the parent company.
 - (3) The adjustment for depreciation under other items of ¥619 million is primarily depreciation expenses related to companywide assets. The adjustment of ¥253 million for increase in property, plant and equipment and intangible assets is primarily an increase related to companywide assets.
2. Segment profit is reconciled with operating profit in the consolidated statements of income.
 3. Depreciation under other items includes the relevant amount of long-term prepaid expenses.

[Related information]

I Fiscal year ended December 31, 2022

1. Products and services

The disclosure is omitted because similar information is disclosed in segment information.

2. Geographical area

(1) Net sales

The disclosure is omitted because sales to outside customers in Japan constituted more than 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan.

3. Major customers

The disclosure is omitted because there was no outside customer whose net sales were 10% or more of net sales in the consolidated statements of income.

II Fiscal year ended December 31, 2023

1. Products and services

The disclosure is omitted because similar information is disclosed in segment information.

2. Geographical area

(1) Net sales

The disclosure is omitted because sales to outside customers in Japan constituted more than 90% of net sales in the consolidated statements of income.

(2) Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan.

3. Major customers

The disclosure is omitted because there was no outside customer whose net sales were 10% or more of net sales in the consolidated statements of income.

[Impairment losses on non-current assets by reportable segment]

The disclosure is omitted because impairment losses on non-current assets by reportable segment is immaterial.

[Amortization and unamortized balance of goodwill by reportable segment]

Not applicable.

[Gain on negative goodwill by reportable segment]

Not applicable.

[Related party transactions]

Not applicable.

(Per share information)

		Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net assets per share	(Yen)	1,684.53	1,809.66
Basic earnings per share	(Yen)	211.09	250.26

(Notes) 1. Diluted earnings per share are omitted because there are no dilutive shares for the fiscal year ended December 31, 2022 and there are no dilutive shares which have dilutive effect for the fiscal year ended December 31, 2023.

2. Basis for calculating net assets per share was as follows:

		As of December 31, 2022	As of December 31, 2023
Net assets	(Millions of yen)	322,732	346,950
Amounts deducted from total net assets	(Millions of yen)	3,343	3,838
(Non-controlling interests)	(Millions of yen)	[3,343]	[3,838]
Net assets attributable to common stock	(Millions of yen)	319,388	343,112
Number of shares of common stock outstanding used for calculation of net assets per share	(Thousands of shares)	189,601	189,600

3. Basis for calculating basic earnings per share was as follows:

		Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit attributable to owners of parent	(Millions of yen)	40,022	47,448
Amount not attributable to common shareholders	(Millions of yen)	—	—
Profit attributable to owners of parent related to common stock	(Millions of yen)	40,022	47,448
Weighted-average number of shares of common stock outstanding	(Thousands of shares)	189,601	189,600
Outline of dilutive shares which were not included in calculation of diluted earnings per share because there was no dilutive effect		—	[An affiliate accounted for using the equity method] LION OFFICE PRODUCTS CORP. The first stock option Number of stock options 27,176 units [Common stock 2,717,600 shares]

(Significant subsequent events)

(Stock split)

The Company resolved to conduct a stock split at a meeting of the Board of Directors held on February 1, 2024, as outlined below.

1. Purpose of the Split

The purpose of the stock split is to provide a better environment for investment by reducing the price of share-trading units of the Company's shares, thereby expanding its investor base and increasing the liquidity of the shares.

2. Outline of the Split

(1) Method of the split

With March 31, 2024 as the record date, one share of common stock of the Company held by the shareholders recorded or registered in the latest shareholder registry as of said date shall be split into two shares.

(2) Number of shares to be increased as a result of the split

(i) Total number of issued shares before the stock split (shares)	190,002,120
(ii) Number of shares to be increased due to the stock split (shares)	190,002,120
(iii) Total number of issued shares after the stock split (shares)	380,004,240
(iv) Total number of authorized shares after the stock split (shares)	1,354,320,000

(3) Schedule

(i) Date to announce the record date	March 17, 2024
(ii) Record date	March 31, 2024
(iii) Effective date	April 1, 2024

3. Effect on Per Share Information

Per share information for the previous fiscal year and the current fiscal year, assuming that the stock split was conducted at the beginning of the previous fiscal year, is as follows.

	As of December 31, 2022	As of December 31, 2023
Number of shares issued at the end of the period (shares) (excluding treasury shares)	379,202,078	379,201,844
Net assets per share (yen)	842.27	904.83

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Average number of shares outstanding during the period (shares) (excluding treasury shares)	379,202,276	379,201,918
Basic earnings per share (yen)	105.54	125.13
Dividend per share (yen)	62.50	67.50

(v) Consolidated Supplementary Statements

[Annexed consolidated detailed schedule of corporate bonds]

Not applicable.

[Annexed consolidated detailed schedule of borrowings]

(Millions of yen, unless otherwise specified)

Category	Beginning balance	Ending balance	Average interest rate (%)	Repayment term
Short-term borrowings	4,400	4,400	0.70	—
Current portion of long-term borrowings	1,700	—	—	—
Current portion of lease obligations	927	883	—	—
Long-term borrowings (excluding current portion)	—	1,700	0.54	2026
Lease obligations (excluding current portion)	1,413	1,204	—	2025 to 2028
Other interest-bearing debt	—	—	—	—
Total	8,441	8,188	—	—

- (Notes)
1. The annual average interest rate represents the weighted-average rate applicable to the ending balance.
 2. The annual average interest rate is not presented for lease obligations because the amounts in the consolidated balance sheets include the amounts corresponding to interest paid from total lease payment.
 3. The total amount of annual repayments of long-term borrowings and lease obligations (excluding current portions) over a period of five years after the consolidated balance sheet date is as follows:

(Millions of yen)

Category	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	—	1,700	—	—
Lease obligations	582	357	202	62

[Annexed consolidated detailed schedule of asset retirement obligations]

The disclosure is omitted because the balance of asset retirement obligations as of the beginning and end of the current fiscal year was not more than 1% of the total balance of liabilities and net assets as of the beginning and end of the current fiscal year.

(2) Others

Quarterly information, etc. for the current fiscal year

Cumulative period	Three months ended March 31, 2023	Six months ended June 30, 2023	Nine months ended September 30, 2023	Fiscal year ended December 31, 2023
Net sales (Millions of yen)	242,609	521,056	740,058	977,370
Profit before income taxes (Millions of yen)	17,424	37,537	48,759	64,892
Profit attributable to owners of parent (Millions of yen)	11,591	25,417	33,135	47,448
Basic earnings per share (yen)	61.14	134.06	174.77	250.26

Accounting period	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (yen)	61.14	72.92	40.71	75.49

VI. Outline of Share-related Administration of the Filing Company

Fiscal year	From January 1 to December 31
Annual General Meeting of Shareholders	March
Record date	December 31
Record date of dividends	June 30 December 31
Number of shares per unit	100 shares
Purchase of shares of less than one unit	
Handling office	(Special account) Stock Transfer Agency Department, Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Administrator of shareholder registry	(Special account) Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi, Chiyoda-ku, Tokyo
Liaison offices	—
Purchase fee	Amounts separately determined as amounts equivalent to commissions for the brokerage of shares
Method of public notice	Public notices of the Company are issued electronically. However, in the event where a public notice cannot be issued electronically due to an accident or other unavoidable circumstances, a public notice will be posted in the Nikkei. The Company's website is as follows: https://www.otsuka-shokai.co.jp/corporate/ir/stocks/public_notice/index.html
Special benefits for shareholders	Not applicable.

(Note) Shareholders of the Company may not, with respect to shares constituting less than one unit they hold, exercise any rights other than those listed below:

- 1 The rights set forth in each item of Article 189, Paragraph 2 of the Companies Act.
- 2 The right to make a demand pursuant to Article 166, Paragraph 1 of the Companies Act.
- 3 The right to receive allotment of shares for subscription and allotment of subscription rights to shares for subscription in proportion to the number of shares held by the shareholder.

VII. Reference Information on the Filing Company

1. Information on the Parent Company of the Filing Company

The Company does not have a parent company as provided for in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other Reference Information

Between the beginning of the current fiscal year and the date of filing of this Annual Securities Report, the following documents have been filed.

(1) Annual securities report, accompanying documents and confirmation letter thereof

For the 62nd fiscal year (from January 1, 2022 to December 31, 2022):

filed with the Director-General of the Kanto Local Finance Bureau on March 29, 2023

(2) Internal control report and accompanying documents thereof

Filed with the Director-General of the Kanto Local Finance Bureau on March 29, 2023

(3) Quarterly securities report and confirmation letter thereof

For the first quarter of the 63rd fiscal year (from January 1, 2023 to March 31, 2023):

filed with the Director-General of the Kanto Local Finance Bureau on May 12, 2023

For the second quarter of the 63rd fiscal year (from April 1, 2023 to June 30, 2023):

filed with the Director-General of the Kanto Local Finance Bureau on August 9, 2023

For the third quarter of the 63rd fiscal year (from July 1, 2023 to September 30, 2023):

filed with the Director-General of the Kanto Local Finance Bureau on November 13, 2023

(4) Extraordinary securities report

Extraordinary securities report as provided for in Article 19, Paragraph 2, Item 9-2 (results of exercise of voting rights at a general meeting of shareholders) of the Cabinet Office Order on Disclosure of Corporate Affairs

Filed with the Director-General of the Kanto Local Finance Bureau on March 31, 2023

Part 2 Information on the Filing Company's Guarantor, etc.

Not applicable.

The following is an English translation of the Independent Auditor's Report and Internal Control Audit Report as required by the Financial Instruments and Exchange Act of Japan.
Ernst & Young ShinNihon LLC has not audit and makes no warranty as to the accuracy or otherwise of the translation of the consolidated financial statements and other financial information included in this translation of the Annual Securities Report.

Independent Auditor's Report and Internal Control Audit Report

March 27, 2024

The Board of Directors
OTSUKA CORPORATION

Ernst & Young ShinNihon LLC
Tokyo Office, Japan

Designated Engagement Partner	Certified Public Accountant	Munetake Kamiyama
----------------------------------	--------------------------------	-------------------

Designated Engagement Partner	Certified Public Accountant	Hideaki Keyaki
----------------------------------	--------------------------------	----------------

<Consolidated Financial Statements Audit>

Opinion

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2023, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows for the year then ended, significant matters providing the basis for the preparation of consolidated financial statements, notes to the consolidated financial statements, and consolidated supplementary statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Accounting treatment for direct delivery transactions involving multiple companies in the System Integration Business	
Description of Key Audit Matters	Auditor's Response
<p>As described in “Segment Information” in the notes to consolidated financial statements of OTSUKA CORPORATION (the “Company”) and its consolidated subsidiaries, consolidated net sales were ¥977,370 million, of which System Integration Business sales were ¥630,185 million for the fiscal year ended December 31, 2023. The business fields of the System Integration Business encompass the construction of information systems and their cutover to end users.</p> <p>Based on the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 on March 31, 2020) and others, the Company and its consolidated subsidiaries identify performance obligations and recognize revenue when a performance obligation is satisfied. If the Company’s performance obligation is to arrange for goods or services to be provided by the other party, the Company will act as an agent.</p> <p>The System Integration Business of the Company and a certain consolidated subsidiary typically involves determining the specifications of the goods for customers, the delivery date and the delivery location, and is responsible for selecting a manufacturer or distributor designated by the manufacturer (the “regular suppliers”) and delivering the goods to customers.</p> <p>Some of those transactions involve multiple companies and the related goods themselves are delivered directly from a supplier to the final customer without going through the Company or the consolidated subsidiary concerned. These transactions may include goods that have been purchased from non-regular suppliers in exceptional circumstances. In that case, the Company or the consolidated subsidiary must take into consideration the nature of each transaction, confirm the existence of the transaction, identify its own roles in the commercial flow of the transaction, identify the performance obligation, and accordingly assess whether it is a principal or an agent. When it is an agent, revenue is recognized at the net amount of consideration received from the customer less the amount paid to suppliers.</p> <p>If the commercial flow of a transaction is complex and the role of the Company or the consolidated subsidiary in the transaction is highly customized, management’s judgment is necessary to determine whether the Company is primarily responsible for fulfilling the promise to provide the services, etc., whether it has inventory risk, or the right to determine the sales price, and depending on such judgment, the amount of revenue recorded might differ significantly from the actual amount that should be recognized.</p> <p>Based on the above, we determined that the accounting treatment for direct delivery transactions involving multiple companies in the System Integration Business was highly significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess the accounting treatment for direct delivery transactions involving multiple companies in the System Integration Business included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of the following internal controls in the purchasing department.</p> <ul style="list-style-type: none"> - Control to ensure orders are only placed with suppliers registered in the purchasing system - Control to ensure the reasonableness of placing orders with non-regular suppliers <p>We tested the design and operating effectiveness of the following internal controls in the accounting department.</p> <ul style="list-style-type: none"> - Control to understand the nature of the transaction, identify the role of the Company or the consolidated subsidiary in the commercial flow of the transaction, and assess whether it is a principal or an agent for direct delivery transactions over a certain monetary threshold. - Control to account for agent transactions on a net basis based on exhaustively aggregated amounts. <p>(2) Substantive procedures</p> <ul style="list-style-type: none"> - We inquired with the sales department about direct delivery transactions that met certain criteria and understood the nature of the transaction and the role of the Company or the consolidated subsidiary in the commercial flow of the transaction. Then we examined the rationality of the commercial flow of the transaction, normality in gross profit margin, and whether the Company or the consolidated subsidiary is primarily responsible for fulfilling the promise to provide the goods, etc., and has any inventory risk or the right to determine the sales price. Also, we examined evidence such as negotiation documents between the Company or the consolidated subsidiary and their customers to confirm the consistency of information acquired from our inquiries. - In order to examine the accuracy of the recorded amount, we compared the amount over a certain monetary threshold with transaction supporting documents such as contracts. - With regard to agent transactions over a certain monetary threshold, we compared the amount with aggregate data, which are supporting documents for journal entries.

Other Information

Other information comprises the information included in the annual securities report, excluding the consolidated financial statements, non-consolidated financial statements, and accompanying audit reports. The management is responsible for preparing and disclosing the other information. 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.

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

In connection with our audit of the 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 consolidated financial statements or our knowledge obtained in the audit, while also paying our attention to whether the other information 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 Consolidated Financial Statements

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

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

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

consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required by audit standards.

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

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

<Internal Control Audit>

Opinion

Pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act, we have audited the internal control report of OTSUKA CORPORATION and its consolidated subsidiaries (the Group) as of December 31, 2023.

In our opinion, the internal control report referred to above, which states that the internal control over financial reporting of the Group as at December 31, 2023 is effective, presents fairly, in all material respects, the result of management's assessment on internal control over financial reporting in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Opinion

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

Responsibilities of Management, the Audit & Supervisory Board Members, and the Audit & Supervisory Board for the Internal Control Report

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

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing and examining the design and operation of internal control over financial reporting.

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

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our responsibilities are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control and to issue an auditor's report that includes our independent opinion on the internal control report.

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

- Perform audit procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The audit procedures for the audit of internal control over financial reporting are selected and

performed at the discretion of the auditor based on the significance of the effect on the reliability of financial reporting.

- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments of internal control over financial reporting that the management presents.
- Obtain sufficient and appropriate audit evidence regarding the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. 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 of internal control over financial reporting, the results of audit of internal control over financial reporting, significant deficiencies in internal control that we identify during our audit that must be disclosed and results of their correction, and other matters required by auditing standards for internal control over financial reporting.

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 internal control, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, any measures taken to eliminate obstructive factors or safeguards put in place to reduce obstructive factors to an acceptable level.

<Information regarding fees>

The fees for the audits of the financial statements of the Company and its subsidiaries and other services provided by us and other EY member firms for the year ended December 31, 2023 are presented in paragraph (3) titled "Status of audits" in Section 4 "Corporate Governance" included in Item IV "Information about Reporting Company" in Part 1 of Annual Securities Report for the year ended December 31, 2023.

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.

End of document

(Notes) 1. The original audit report is separately kept by OTSUKA CORPORATION (the company filing the Annual Securities Report).

2. XBRL data is excluded from the scope of audit.

[Cover page]

[Document title]	Internal Control Report
[Clause of stipulation]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Place of filing]	Director-General of the Kanto Local Finance Bureau
[Filing date]	March 27, 2024
[Company name]	Kabushiki Kaisha Otsuka Shokai
[Company name in English]	OTSUKA CORPORATION
[Title and name of representative]	Yuji Otsuka, President & Chief Executive Officer
[Title and name of chief financial officer]	Not applicable.
[Address of head office]	2-18-4 Iidabashi, Chiyoda-ku, Tokyo, Japan
[Place for public inspection]	Osaka Northern Sales Dept., OTSUKA CORPORATION (6-14-1 Fukushima, Fukushima-ku, Osaka City) Kanagawa Sales Dept., OTSUKA CORPORATION (3-3 Kinkocho, Kanagawa-ku, Yokohama City) Keiyo Sales Dept., OTSUKA CORPORATION (2-340 Katsushikacho, Funabashi City, Chiba Prefecture) Northern Kanto Sales Dept., OTSUKA CORPORATION (1-195-1 Sakuragicho, Omiya-ku, Saitama City) Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo)

[Matters concerning the basic framework for internal control over financial reporting]

Yuji Otsuka, President & Chief Executive Officer, is responsible for establishing and operating internal control over financial reporting of the Company on a consolidated basis and has established and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in “On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council.

Internal control aims at achieving its objectives to a reasonable extent with all of its basic components organically connected and functioning as a whole. Therefore, there is a possibility that misstatements in financial reporting may not be completely prevented or detected by internal control over financial reporting.

1. [Matters concerning the scope, record date, and procedures for assessment]

The assessment of internal control over financial reporting was performed with a record date of December 31, 2023, which is the end of the fiscal year under review. The assessment was performed in accordance with generally accepted standards for assessment of internal control over financial reporting.

In conducting this assessment, we first assessed internal controls that may have a material impact on our entire financial reporting on a consolidated basis (hereinafter referred to as “company-wide controls”), and in light of the results thereof, we selected business processes to be assessed. In the assessment of these business processes, we assessed the effectiveness of internal controls by analyzing the selected business processes, identifying key controls that may have a material impact on the reliability of the financial reporting, and assessing the establishment and operation of these key controls.

We determined the required scope of assessment of internal control over financial reporting for the Company, its consolidated subsidiaries, and affiliates accounted for using equity method from the perspective of the materiality that may affect the reliability of the financial reporting. The materiality that may affect the reliability of the financial reporting is determined by taking into account the materiality of quantitative and qualitative impacts. Considering the results of the assessment of company-wide controls conducted for the Company and two of its consolidated subsidiaries, we reasonably determined the scope of assessment of internal control over business processes. Note that the other two consolidated subsidiaries and three affiliates accounted for using equity method were deemed to be immaterial from the perspective of quantitative and qualitative materiality and were therefore not included in the scope of assessment of company-wide controls.

Regarding the scope of assessment of internal control over business processes, we accumulated business locations selected in descending order on the basis of their previous fiscal year’s net sales (excluding consolidated intercompany transactions), and the Company, whose combined net sales reached approximately two-thirds of the consolidated net sales, was selected as a “significant business location.” For the selected significant business location, we assessed business processes leading to net sales, accounts receivable - trade, and inventories as accounts that are closely associated with the business objectives of the Company. Furthermore, in the scope that encompasses the significant business location and the other business locations, business processes relating to (i) a business or operation dealing with high-risk transactions, (ii) significant accounts involving estimates and forecasts, and (iii) those requiring special attention with a greater likelihood of misstatements such as nonroutine or irregular transactions were added to the scope of assessment as business processes having greater materiality, taking into account their impact on the financial reporting.

2. [Matters concerning the results of the assessment]

As a result of the assessment described above, as of the end of the fiscal year under review, we concluded that the Company’s internal control over financial reporting on a consolidated basis was effective.

3. [Additional notes]

No additional notes to report.

4. [Special notes]

No special notes to report.