

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

(Securities Code: 4768)

March 8, 2023

To Our Shareholders:

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

## NOTICE OF THE 62ND ANNUAL GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 62nd Annual General Meeting of Shareholders of OTSUKA CORPORATION (the “Company”), which will be held as indicated below.

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

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

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

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

Tokyo Stock Exchange’s website (TSE’s Company Announcements Service for listed companies)

<https://www2.jpx.co.jp/tseHpFront/JJK010010Action.do?Show=Show>

(Please access the above website of TSE and enter “OTSUKA CORPORATION” in “Security Name (Company Name)” or the Company’s securities code “4768” in “Code” to search, select “Basic Information” and then “Documents for public inspection/PR information,” and see the “Convocation notices/documents for shareholder meetings” column under “Documents for public inspection.”)

If you are unable to attend the Meeting, you can exercise your voting rights using any of the following methods. Please review the attached Reference Documents for the General Meeting of Shareholders and **exercise your voting rights by no later than 5:30 p.m. on Tuesday, March 28, 2023 (JST).**

**[Voting in writing (by mail)]**

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

**[Voting via the internet, etc.]**

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

**1. Date and Time:** Wednesday, March 29, 2023, at 10 a.m. (JST) (The reception desk will open at 9 a.m.)

**2. Venue:** 2-18-4 Iidabashi, Chiyoda-ku, Tokyo

**Large Conference Room, 3rd floor, Head Office of the Company**  
(Please see the “Map to the Venue for Shareholders Meeting” attached at the end.)

**3. Purpose of the Meeting:**

*Items to be reported:*

1. The Business Report and the Consolidated Financial Statements for the 62nd fiscal year (from January 1, 2022 to December 31, 2022), and the results of audits of the Consolidated Financial Statements by the Independent Auditor and the Audit & Supervisory Board
2. The Non-consolidated Financial Statements for the 62nd fiscal year (from January 1, 2022 to December 31, 2022)

*Items to be resolved:*

- Proposal 1:** Appropriation of Surplus  
**Proposal 2:** Election of Eight Directors  
**Proposal 3:** Election of One Audit & Supervisory Board Member  
**Proposal 4:** Payment of Retirement Benefits to Retiring Directors

#### 4. Matters Prescribed for Convocation

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

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

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

## Reference Documents for the General Meeting of Shareholders

### Proposal 1: Appropriation of Surplus

The Company proposes the appropriation of surplus as follows:

#### Year-end Dividends

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

In accordance with this policy, the Company proposes to pay ¥125 per common share of the Company as year-end dividends for the 62nd fiscal year, an increase of ¥10 compared to the previous fiscal year's ordinary dividend of ¥115, as follows:

- (1) Type of dividend property  
To be paid in cash.
- (2) Allotment of dividend property and aggregate amount thereof  
¥125 per common share of the Company  
Total dividends: ¥23,700,129,875
- (3) Effective date of dividends of surplus  
March 30, 2023

## Proposal 2: Election of Eight Directors

The terms of office of all 10 Directors will expire at the conclusion of this Meeting. Therefore, the Company proposes the election of eight Directors.

The candidates for Director are as follows:

No.	Name		Current position in the Company	Attendance at Board of Directors meetings (Attendance rate)	Tenure as Director
1	Yuji Otsuka Male	Reelection ○	President & Chief Executive Officer	19/19 (100%)	31 years
2	Kazuyuki Katakura Male	Reelection	Managing Director & Senior Executive Operating Officer	19/19 (100%)	26 years
3	Hironobu Tsurumi Male	Reelection	Managing Director & Executive Operating Officer	18/19 (94%)	13 years
4	Hironobu Saito Male	Reelection ○	Managing Director & Executive Operating Officer	19/19 (100%)	16 years
5	Minoru Sakurai Male	Reelection	Managing Director & Operating Officer	19/19 (100%)	12 years
6	Jiro Makino Male	Outside Independent Reelection ○	Director	18/19 (94%)	8 years
7	Tetsuo Saito Male	Outside Independent Reelection ○	Director	19/19 (100%)	7 years
8	Makiko Hamabe Female	Outside Independent Reelection ○	Director	19/19 (100%)	2 years

Reelection Candidate for Director to be reelected

Outside Candidate for outside Director

Independent Independent officer stipulated by the Tokyo Stock Exchange

○ Nomination and Compensation Committee Member

No.	Name (Date of birth)	Career summary, position and responsibility in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
1	Yuji Otsuka (February 13, 1954)  Tenure as Director 31 years  Attendance at Board of Directors meetings 19/19 (100%)  Nomination and Compensation Committee Member  Reelection	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. 2001    Director & President (Representative Director) Mar. 2006    President & Chief Executive Officer Apr. 2011    President & Chief Executive Officer, General Manager of Marketing Headquarters (current position)  Significant concurrent positions outside the Company President & Chief Executive Officer of Otsuka Sobi Co., Ltd.	4,681,880 shares
	<p>Reasons for nomination as candidate for Director</p> <p>The Company nominated Yuji Otsuka for another term as a candidate for Director because he has served as President &amp; Chief Executive Officer for many years and, as a corporate manager, has abundant experience and knowledge regarding the Company's overall management as well as excellent insight.</p>		
2	Kazuyuki Katakura (June 11, 1952)  Tenure as Director 26 years  Attendance at Board of Directors meetings 19/19 (100%)  Reelection	Mar. 1976    Joined the Company 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, General Manager of Sales Headquarters, and Deputy General Manager of Marketing Headquarters (current position)  Significant concurrent positions outside the Company -	50,500 shares
	<p>Reasons for nomination as candidate for Director</p> <p>The Company nominated Kazuyuki Katakura for another term as a candidate for Director because he has been in charge of the entire sales division for many years, served as a director and an executive officer, and has abundant experience and knowledge regarding the Company's overall management.</p>		

No.	Name (Date of birth)	Career summary, position and responsibility in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
3	<p>Hironobu Tsurumi (July 23, 1955)</p> <p>Tenure as Director 13 years</p> <p>Attendance at Board of Directors meetings 18/19 (94%)</p> <p>Reelection</p>	<p>Mar. 1979    Joined the Company</p> <p>Jul. 2004    Managing Officer</p> <p>Mar. 2006    Senior Managing Officer</p> <p>Mar. 2010    Director &amp; Senior Managing Officer</p> <p>Mar. 2013    Managing Director &amp; Operating Officer</p> <p>Mar. 2018    Managing Director &amp; Senior Operating Officer</p> <p>Mar. 2019    Managing Director &amp; Executive Operating Officer, Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, and General Manager of CAD Promotion Department (current position)</p> <p>Significant concurrent positions outside the Company</p> <p>Chairman of Otsuka Information Technology Corp.</p>	30,000 shares
<p>Reasons for nomination as candidate for Director</p> <p>The Company nominated Hironobu Tsurumi for another term as a candidate for Director because he has been in charge of CAD division, which handles products related to CAD-based design support tools, for many years, served as a director and an executive officer, and has abundant experience and knowledge regarding the Company's overall management.</p>			
4	<p>Hironobu Saito (July 17, 1949)</p> <p>Tenure as Director 16 years</p> <p>Attendance at Board of Directors meetings 19/19 (100%)</p> <p>Nomination and Compensation Committee Member</p> <p>Reelection</p>	<p>Aug. 1968    Joined the Company</p> <p>Jul. 2003    Managing Officer</p> <p>Mar. 2005    Senior Managing Officer</p> <p>Mar. 2007    Director &amp; Senior Managing Officer</p> <p>Mar. 2011    Managing Director &amp; Operating Officer</p> <p>Mar. 2018    Managing Director &amp; Senior Operating Officer</p> <p>Mar. 2021    Managing Director &amp; Executive Operating Officer, in charge of Project Promotion Office, General Manager of Business Administration Headquarters, in charge of Audit Office, Marketing Automation Center and Customer Personalized Pages Promotion Center (current position)</p> <p>Significant concurrent positions outside the Company</p> <p>—</p>	186,000 shares
<p>Reasons for nomination as candidate for Director</p> <p>The Company nominated Hironobu Saito for another term as a candidate for Director because he has been in charge of corporate planning and Audit Office for many years, served as a director and an executive officer, and has abundant experience and knowledge regarding the Company's overall management.</p>			



No.	Name (Date of birth)	Career summary, position and responsibility in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
5	<p>Minoru Sakurai (March 27, 1957)</p> <p>Tenure as Director 12 years</p> <p>Attendance at Board of Directors meetings 19/19 (100%)</p> <p>Reelection</p>	<p>Mar. 1979    Joined the Company</p> <p>Mar. 2005    Managing Officer</p> <p>Mar. 2010    Senior Managing Officer</p> <p>Mar. 2011    Director &amp; Senior Managing Officer</p> <p>Mar. 2013    Managing Director &amp; Operating Officer</p> <p>Mar. 2018    Managing Director &amp; Operating Officer, General Manager of Technology Headquarters, Executive Department Head of AP Solution Department, and Executive Department Head of TC Solution Department (current position)</p> <p>Significant concurrent positions outside the Company –</p>	19,800 shares
<p>Reasons for nomination as candidate for Director</p> <p>The Company nominated Minoru Sakurai for another term as a candidate for Director because he has been in charge of technology division and support division for many years, served as a director and an executive officer, and has abundant experience and knowledge regarding the Company's overall management.</p>			
6	<p>Jiro Makino (May 14, 1953)</p> <p>Tenure as outside Director 8 years</p> <p>Attendance at Board of Directors meetings 18/19 (94%)</p> <p>Chairperson of Nomination and Compensation Committee</p> <p>Outside Independent Reelection</p>	<p>Apr. 1983    Registered as an attorney at law</p> <p>Aug. 1990    Established MAKINO legal professional office (currently MAKINO legal professional corporation) Director (current position)</p> <p>Mar. 2004    Outside Audit &amp; Supervisory Board Member of the Company</p> <p>Mar. 2015    Outside Director (current position)</p> <p>Significant concurrent positions outside the Company Director of MAKINO legal professional corporation</p>	– shares
<p>Reasons for nomination as candidate for Director and outline of expected roles</p> <p>The Company nominated Jiro Makino for another term as a candidate for outside Director because, although he has not been engaged in corporate management in the past, except through his activities as an outside officer, he has knowledge and experience as an attorney at law and has been engaged for many years in practical business pertaining to corporate law, and in the expectation that he will use his knowledge and experience in the management of the Company, the Company deems that he can suitably fulfill his duties as an outside Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibility in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
7	<p>Tetsuo Saito (March 25, 1954)</p> <p>Tenure as outside Director 7 years</p> <p>Attendance at Board of Directors meetings 19/19 (100%)</p> <p>Nomination and Compensation Committee Member</p> <p>Outside Independent Reelection</p>	<p>Apr. 1977    Joined Tokyo Stock Exchange (currently Japan Exchange Group, Inc.)</p> <p>May 1997    Representative Director of Work Two Co., Ltd. (current position)</p> <p>May 2009    Outside Audit and Supervisory Board Member of Diamond Dining Co., Ltd. (currently DD Holdings Co., Ltd.) (current position)</p> <p>Jun. 2012    Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd. (current position)</p> <p>Dec. 2015    Outside Director of Career Design Center Co., Ltd. (current position)</p> <p>Mar. 2016    Outside Director of the Company (current position)</p> <p>Significant concurrent positions outside the Company</p> <p>Representative Director of Work Two Co., Ltd.</p> <p>Outside Audit and Supervisory Board Member of DD Holdings Co., Ltd.</p> <p>Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd.</p> <p>Outside Director of Career Design Center Co., Ltd.</p>	<p>– shares</p>
<p>Reasons for nomination as candidate for outside Director and outline of expected roles</p> <p>The Company nominated Tetsuo Saito for another term as a candidate for outside Director because he has long-standing experience of having numerous engagements in corporate management pertaining to numerous industry sectors, and in the expectation that he will use his experience in the management of the Company, the Company deems that he can suitably fulfill his duties as an outside Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibility in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
8	<p>Makiko Hamabe (August 28, 1964)</p> <p>Tenure as outside Director 2 years</p> <p>Attendance at Board of Directors meetings 19/19 (100%)</p> <p>Nomination and Compensation Committee Member</p> <p>Outside Independent Reelection</p>	<p>Apr. 1988    Joined Tokyo Office of Central Bank of Chile (Financial Department of Embassy of Chile)</p> <p>Sep. 1992    Joined Tokyo Branch of J.P. Morgan Securities Asia Pte. Limited (currently JP Morgan Securities Japan Co., Ltd.)</p> <p>Apr. 1995    Joined Tokyo Office of Company Information Division, Department of Trade and Industry of Catalonia, Spain</p> <p>Jun. 1998    Joined Thomson Financial Investor Relations</p> <p>Mar. 2000    Joined Yahoo Japan Corporation (currently Z Holdings Corporation)</p> <p>Apr. 2009    Head of IR (Investor Relations) Office of Yahoo Japan Corporation</p> <p>Apr. 2014    General Manager of SR (Stakeholder Relations) Division of Yahoo Japan Corporation</p> <p>Apr. 2018    Head of President's Office and Corporate Evangelist of Yahoo Japan Corporation</p> <p>Sep. 2019    Joined DIP Corporation Executive Officer, General Manager of Corporate Communication Department, Management Administration Division of DIP Corporation</p> <p>Feb. 2021    Established Makiko Hamabe Office, Representative (current position)</p> <p>Mar. 2021    Outside Director of SoldOut, Inc</p> <p>Mar. 2021    Outside Director of the Company (current position)</p> <p>Mar. 2023    External Auditor of McDonald's Holdings Company (Japan), Ltd. (scheduled to assume office)</p> <p>Significant concurrent positions outside the Company Representative of Makiko Hamabe Office External Auditor of McDonald's Holdings Company (Japan), Ltd. (scheduled to assume office in March 2023)</p>	100 shares
<p>Reasons for nomination as candidate for outside Director and outline of expected roles</p> <p>The Company nominated Makiko Hamabe for another term as a candidate for outside Director because she has a high level of knowledge regarding ESG and IR, and she provides diverse opinions and advice based on the viewpoints of various stakeholders since she has been engaged for many years in corporate communication and IR-related activities, and in the expectation that she will use her knowledge and experience in the management of the Company, the Company deems that she can suitably fulfill her duties as an outside Director.</p>			

- Notes: 1. Otsuka Information Technology Corp., at which Hironobu Tsurumi serves as Chairman, is an affiliate of the Company accounted for under the equity method.  
There is no special interest between the other candidates and the Company.
2. Jiro Makino, Tetsuo Saito, and Makiko Hamabe are candidates for outside Director. The Company has entered into agreements with the three of them to limit their liability for damages set forth in Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the same Act. According to these agreements, the limit of liability for damages shall be the amount stipulated by laws and regulations, and if they are elected as per the original proposal, the Company plans to continue these agreements with the three of them.
3. The Company has concluded a directors and officers liability insurance policy with an insurance agency, as set forth in Article 430-3, Paragraph 1 of the Companies Act. This insurance policy covers damages arising from liability borne by the insured persons in the course of execution of their duties as an officer, etc. or claims pertaining to the pursuit of such liability. Each candidate for reelection in this proposal is included as an insured person under this insurance policy, and each candidate will be included as an insured person under this insurance policy if this proposal is approved as proposed. The Company plans to renew the insurance policy with the same details as above during the terms of office of the Directors in this proposal.
4. The Company has submitted notification as to the status of the three of Jiro Makita, Tetsuo Saito and Makiko Hamabe as independent officers as defined by the Tokyo Stock Exchange, and if the Proposal is approved as proposed, the Company plans to once again submit notification as to their status as independent officers.

### Proposal 3: Election of One Audit & Supervisory Board Member

The term of office of Audit & Supervisory Board Member Tatsumi Murata will expire at the conclusion of this Meeting. Therefore, the Company proposes the election of one Audit & Supervisory Board Member. The consent of the Audit & Supervisory Board has been obtained for this proposal. The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary and position in the Company, and significant concurrent positions outside the Company	Number of the Company's shares held
Tatsumi Murata (November 2, 1957)	Mar. 1981    Joined the Company Jan. 2013    General Manager of Operation Administration Department Apr. 2016    General Manager of Audit Office Mar. 2020    Operating Officer, General Manager of Audit Office Mar. 2021    Standing Audit & Supervisory Board Member (current position)	1,600 shares
Term as Audit & Supervisory Board Member: 2 years	Significant concurrent positions outside the Company —	
Attendance at Board of Directors meetings 19/19 (100%)		
Attendance at Audit & Supervisory Board meetings 15/15 (100%)		
Reelection		
Reasons for nomination as candidate for Audit & Supervisory Board Member Tatsumi Murata has been involved in operation administration of the Company for many years. The Company re-nominated him as a candidate for Audit & Supervisory Board Member because he has been in charge of internal audits as General Manager of Audit Office, he has abundant experience and knowledge related to internal control, he has knowledge and ability related to auditing through the regular exchange of information between the Audit & Supervisory Board and the audit corporation, and he can be expected to perform highly effective audits, which leads the Company to deem that he can suitably fulfill his duties as an Audit & Supervisory Board Member.		

- Notes:
1. There is no special interest between the candidate and the Company.
  2. The Company has entered into an agreement with Tatsumi Murata to limit his liability for damages set forth in Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the same Act. According to the agreement, the limit of liability for damages shall be the amount stipulated by laws and regulations, and if he is elected as per the original proposal, the Company plans to continue the agreement with him.
  3. The Company has concluded a directors and officers liability insurance policy with an insurance agency, as set forth in Article 430-3, Paragraph 1 of the Companies Act. This insurance policy covers damages arising from liability borne by the insured persons in the course of execution of their duties as an officer, etc. or claims pertaining to the pursuit of such liability. The candidate for reelection in this proposal is included as an insured person under this insurance policy, and the candidate will be included as an insured person under this insurance policy if this proposal is approved as proposed. The Company plans to renew the insurance policy with the same details as above during the term of office of the Audit & Supervisory Board Member in this proposal.

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

### <Policy on election of candidates for Directors>

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

### <Policy for election of candidates for Audit and Supervisory Board Members>

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

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

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

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

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

[Reference] The Directors and Audit and Supervisory Board Members System and Skill Matrix if Proposals 2 and 3 are approved

Primary skills: ◎

Supplementary skills: ○

	Years in office	Nomination and Compensation Committee	Areas of particular expertise							(Main) areas of responsibility
			Corporate management	Finance & accounting	Legal/risk management	Sustainability/ESG	Personnel & labor relations Human resources development	Technical research and development	DX/ICT	
Yuji Otsuka President & Chief Executive Officer Male	31	●	◎	◎	◎	◎	◎	○	◎	General Manager of Marketing Headquarters
Kazuyuki Katakura Managing Director & Senior Executive Operating Officer Male	26	-	○	○	○	○	○	○	◎	General Manager of Sales Headquarters, and Deputy General Manager of Marketing Headquarters
Hironobu Tsurumi Managing Director & Executive Operating Officer Male	13	-	◎	○	○	○	○	○	○	Deputy General Manager of Sales Headquarters, and Executive Department Head of CAD Department
Hironobu Saito Managing Director & Operating Officer Male	16	●	◎	◎	◎	◎	◎	○	◎	In charge of Project Promotion Office, General Manager of Business Administration Headquarters, in charge of Marketing Automation Center and Customer Personalized Pages Promotion Center
Minoru Sakurai Managing Director & Operating Officer Male	12	-	○		○			○	◎	General Manager of Technology Headquarters
Jiro Makino Outside Independent Director Male	8	● Chair-person	○		◎					Corporate law
Tetsuo Saito Outside Independent Director Male	7	●	◎	◎		○				Corporate management (governance)
Makiko Hamabe Outside Independent Director Female	2	●	◎	◎		◎				Sustainability, IR

	Years in office	Nomination and Compensation Committee	Areas of particular expertise							(Main) areas of responsibility
			Corporate management	Finance & accounting	Legal/risk management	Sustainability/ESG	Personnel & labor relations Human resources development	Technical research and development	DX/ICT	
Tatsumi Murata Audit & Supervisory Board Member Male	2	-		○	◎			○		Overall business
Kazuhiko Nakai Outside Independent Audit & Supervisory Board Member Male	11	-	◎	◎						Finance & accounting
Etsuo Hada Outside Independent Audit & Supervisory Board Member Male	7	-	◎	◎	◎					Finance & accounting, corporate law
Katsumasa Minagawa Outside Independent Audit & Supervisory Board Member Male	3	-	◎		◎					Corporate law

#### Proposal 4: Payment of Retirement Benefits to Retiring Directors

At the conclusion of this Meeting, Directors Toshiyasu Takahashi and Katsuhiko Yano will retire due to the expiration of their terms of office. To compensate them for their efforts while in office, the Company wishes to pay retirement benefits within the range of the suitable amount prescribed by criteria established by the Company and requests that the actual amount, timing of payment, method of payment, etc. be entrusted to the discretion of the Board of Directors.

This proposal is for the payment of retirement benefits for officers in accordance with the provisions of rules on retirement benefits as consideration for the performance of duties, with an annual basic amount set for each rank of full-time Director to be accrued, and the cumulative amount to be calculated at the time of the Director's retirement based on a resolution of the General Meeting of Shareholders. Furthermore, on page 17 of this Convocation Notice, the annual basic amounts for each position provided by the rules on retirement benefits within certain standards stipulated by the Company are stated for reference. Furthermore, the accrued amounts are ¥67.40 million for Mr. Toshiyasu Takahashi (Note 1) and ¥50.90 million for Mr. Katsuhiko Yano (Note 2), for a total of ¥118.30 million.

The specific amounts of retirement benefits are to be considered based on the above accrued amounts, including adjustments stipulated by the rules on retirement benefits, by being deliberated by the Nomination and Compensation Committee, an advisory body to the Board of Directors, and then determined by the Board of Directors based on the reported deliberation result. The Nomination and Compensation Committee is comprised of five or more Directors elected by resolution of the Board of Directors, and a majority of the members are independent outside Directors. The Chairperson is elected by resolution of the Nomination and Compensation Committee from among the members who are independent outside Directors.

This proposal requests an approval regarding the payment of retirement benefits as stated above in line with the policy for determining Directors' remuneration, etc. determined by the Company's Board of Directors, which is presented on page 34 to page 36 of this notice of convocation and the Company thinks the content of the proposal, including the above, is appropriate.

The career summary of the retiring Directors is as follows:

Name	Career summary	
Toshiyasu Takahashi	Mar. 2002	Director
	Jul. 2003	Director & Senior Managing Officer
	Mar. 2006	Managing Director & Operating Officer
	Mar. 2010	Managing Director & Senior Operating Officer
	Mar. 2011	Managing Director & Executive Operating Officer
	Mar. 2018	Managing Director & Senior Executive Operating Officer (current position)
Katsuhiko Yano	Mar. 2002	Director
	Jul. 2003	Director & Senior Managing Officer
	Mar. 2010	Director & Executive Managing Officer
	Mar. 2011	Managing Director & Operating Officer (current position)

- Notes: 1. The calculation of the accrued amount for Toshiyasu Takahashi: Director ¥1.3 million + Director & Senior Managing Officer ¥2.0 million × 3 years + Managing Director & Operating Officer ¥2.8 million × 4 years + Managing Director & Senior Operating Officer ¥3.0 million × 1 year + Managing Director & Executive Operating Officer ¥3.7 million × 7 years + Managing Director & Senior Executive Operating Officer ¥4.0 million × 5 years
2. The calculation of the accrued amount for Katsuhiko Yano: Director ¥1.3 million + Director & Senior Managing Officer ¥2.0 million × 7 years + Director & Executive Managing Officer ¥2.0 million × 1 year + Managing Director & Operating Officer ¥2.8 million × 12 years



[Reference]

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

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

## **Business Report**

(From January 1, 2022 to December 31, 2022)

### **1. Current status of the corporate group**

#### **(1) Overview of business during the fiscal year**

##### **(i) Business activities and results**

During the fiscal year under review, despite the lingering impacts of COVID-19, the Japanese economy was on a moderate recovery trend as economic activities gradually normalized with the relaxation of behavioral restrictions. On the other hand, the domestic economy continued to face an uncertain future due to soaring resource prices and prices in general caused by the depreciation of the Japanese yen resulting from global tightening of monetary policy and the prolonged situation in Ukraine.

Under these economic conditions, in the IT investment field, although some took a cautious approach, demand for IT investment remained firm as companies responded to digitization and worked to enhance competitiveness. Further, improvements were seen in restrictions on the supply of some merchandise that had been caused by the disruption of the supply chain in addition to shortages of parts and materials as well as semiconductors.

Amid such environment, the OTSUKA Group strived to enhance customer interfaces under the fiscal 2022 slogan, “Get close to and grow together with customers in DX and all of our products.” As a result, our sales activities gradually returned to normal, including activities towards new customers, which had been affected during the previous year and started to recover. Specifically, we continued to support customers’ efforts to review workflows and transition to digital documents with the aim of responding to the revised Electronic Books Maintenance Act and others, in addition to providing cutting-edge solutions to help promote DX. We also strived to achieve solutions 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 1.1% from the previous fiscal year to ¥861,022 million. At the earnings level, operating profit decreased 1.9% year on year to ¥54,768 million, ordinary profit decreased 1.6% year on year to ¥56,639 million and profit attributable to owners of parent increased 0.2% year on year to ¥40,022 million. The application of the “Revenue Recognition Accounting Standard” and others caused net sales during the fiscal year to decrease ¥36,544 million. If this decrease were added back to net sales for the fiscal year under review, net sales would have been ¥897,566 million. Had the same standard been applied to the previous fiscal year, the rate of change in net sales would have been an increase of 5.2% year on year.

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

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

Results by business segment are as follows:

### **System Integration Business**

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

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction, and its net sales increased 3.4% year on year to ¥541,671 million due to such factors as the impact of a decline in unit sales of PCs associated with the GIGA school demand during the previous year and supply shortage of some merchandise.

The application of the "Revenue Recognition Accounting Standard" and others caused net sales during the fiscal year to decrease ¥5,510 million. Had the same standard been applied to the previous fiscal year, the rate of change in net sales would have been an increase of 4.5% year on year.

### **Service and Support Business**

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

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing.

We continued to focus on stock-based business, including the "tanomail" office supply mail-order service business and the "tayoreru\*" support business, with net sales amounting to ¥319,350 million (down 2.7% year on year). The application of the "Revenue Recognition Accounting Standard" and others caused net sales during the fiscal year to decrease ¥31,033 million. Had the same standard been applied to the previous fiscal year, the rate of change in net sales would have been an increase of 6.6% year on year.

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

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

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

Class		59th fiscal year (FY2019)	60th fiscal year (FY2020)	61st fiscal year (FY2021)	62nd fiscal year (Current Fiscal Year) (FY2022)
Net sales	(Millions of yen)	886,536	836,323	851,894	861,022
Ordinary profit	(Millions of yen)	63,706	57,550	57,567	56,639
Profit attributable to owners of parent	(Millions of yen)	43,497	39,309	39,927	40,022
Earnings per share (EPS)	(Yen)	229.42	207.33	210.59	211.09
Total assets	(Millions of yen)	461,812	471,292	486,254	523,016
Net assets	(Millions of yen)	261,622	280,035	301,774	322,732
Net assets per share	(Yen)	1,367.76	1,462.80	1,575.64	1,684.53
ROE	(%)	17.8	14.6	13.9	13.0

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

Class		59th fiscal year (FY2019)	60th fiscal year (FY2020)	61st fiscal year (FY2021)	62nd fiscal year (Current Fiscal Year) (FY2022)
Net sales	(Millions of yen)	802,200	750,492	766,724	767,649
Ordinary profit	(Millions of yen)	57,593	52,007	50,986	50,692
Profit	(Millions of yen)	39,952	36,336	36,087	36,631
Earnings per share (EPS)	(Yen)	210.72	191.65	190.33	193.20
Total assets	(Millions of yen)	426,112	431,736	443,127	473,250
Net assets	(Millions of yen)	235,571	250,316	268,128	283,595
Net assets per share	(Yen)	1,242.46	1,320.23	1,414.17	1,495.75

**(3) Significant parent company and subsidiaries**

**(i) Parent company**

Not applicable.

**(ii) Significant subsidiaries**

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

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

#### (4) Issues to be addressed

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

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

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

At present, the future outlook is uncertain in Japan due to downside risks in the global economy resulting from global tightening of monetary policy in addition to elevated levels of resource prices and prices in general. However, the economy is expected to continue on a moderate recovery trend, led by domestic demand, including a recovery in private consumption and increase in capital expenditure.

Under these economic conditions, IT investment by companies is expected to remain resilient as they are required to respond to the revised Electronic Books Maintenance Act and the Invoice System as well as the forthcoming termination of Windows Server 2012 support, in addition to the promotion of digitization and the use of technologies such as AI, IoT, and 5G in order to improve operational efficiency and strengthen competitiveness.

Based on the aforementioned outlook for the domestic economic situation and IT investment trends, the OTSUKA Group will strive to support customers' DX promotion by utilizing the wide range of products and services we offer, which is one of the Group's strengths, under the fiscal 2023 slogan, "Get close to and grow together with customers by supporting DX for the entire office of customers." In particular, for small- and medium-sized customers, who often do not have sufficient IT personnel, we will provide support for digitization as well as highly value-added solutions proposals that help them to improve productivity and reduce costs. In order to do so, we will strive to enhance customer interfaces by combining various channels, such as the functions of each center that supports sales and support activities and Customer Personalized Pages\*, in addition to supporting sales processes by utilizing technologies such as AI. We will also provide IT-based services and solutions aimed at resolving ESG issues and contributing to the achievement of the SDGs. Further, since fiscal 2022, we have been promoting measures to improve employees' motivation and lead to their growth, such as raising the labor share of income, including an increase in basic pay that was implemented ahead of the change in the social trend, making employees' well-being visualized, reforming the management of proposal-making for customers' entire offices, and developing human resources, with the aim of reinforcing human capital. Our vision for providing support for customers' entire offices is taking shape gradually through these measures, which we will continue to promote in 2023.

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

#### [System Integration Business]

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

#### [Service and Support Business]

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

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

## (5) Capital investments

The total amount of capital investment of the company group made during the fiscal year under review was ¥5,907 million, a decrease of ¥4,975 million compared to the previous fiscal year. Major equipment acquired during the fiscal year under review is as follows.

Major equipment acquired during the fiscal year under review

(Millions of yen)

Equipment, etc.	Location of equipment	Investment amount
Computers and servers, etc.	Nationwide offices	492
Software		4,657

## (6) Financing

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

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

## (7) Major creditors of the corporate group (As of December 31, 2022)

(Millions of yen)

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



**(8) Main offices** (As of December 31, 2022)

<OTSUKA CORPORATION>

- (i) Head Office: 2-18-4 Iidabashi, Chiyoda-ku, Tokyo
- (ii) Main Departments: LA Division (Chiyoda-ku, Tokyo)  
BP Division (Chiyoda-ku, Tokyo)  
Tanomail Business Division (Chiyoda-ku, Tokyo)  
Hotel Division (Taito-ku, Tokyo)

(iii) Local Area Sales Departments and Regional Offices

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

(iv) Other locations

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

<Principal subsidiaries>

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

**(9) Employees** (As of December 31, 2022)

**(i) Employees of the corporate group**

Number of employees	Increase/decrease from the previous fiscal year-end
9,208 (1,484)	Increased by 37 (increased by 38)

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

**(ii) Employees of the Company**

Number of employees	Increase/decrease from the previous fiscal year-end	Average age (Years)	Average years of service (Years)
7,524 (1,187)	Increased by 44 (increased by 115)	41.8	17.5

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

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

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

On October 7, 2022, the Company received a cease and desist order from the Japan Fair Trade Commission, which ordered it to pay a surcharge for violations of the Antimonopoly Act in connection with a bid for computer devices, etc. for schools by Hiroshima Prefecture and Hiroshima City. The Company paid a surcharge of ¥3,400,000 on October 31, 2022 and completed the measures pursuant to the cease and desist order on December 14, 2022.

The Company takes this situation with the utmost seriousness and reviewed internal rules to make employees fully aware of compliance with the Antimonopoly Act based on the revised rules. We will continue to provide sales representatives and others with periodic training and conduct periodic audits, to further ensure compliance with the Antimonopoly Act while carrying out independent activities to receive orders.

## 2 Status of other companies, etc.

### (1) Shares (As of December 31, 2022)

(i) Total number of authorized shares	677,160,000
(ii) Total number of issued shares	190,002,120
(iii) Number of shareholders	7,475
(iv) Major shareholders (top 10 shareholders)	

Name	Number of shares held (Thousands of shares)	Equity ownership (%)
Otsuka Sobi Co., Ltd.	63,602	33.54
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,780	12.01
Custody Bank of Japan, Ltd. (Trust Account)	13,493	7.11
Yuji Otsuka	4,681	2.46
OTSUKA CORPORATION Employee Stock-Sharing Plan	4,455	2.34
SMBC Nikko Securities Inc.	4,042	2.13
Keiko Otsuka	3,481	1.83
JPMorgan Securities Japan Co., Ltd.	3,209	1.69
STATE STREET BANK WEST CLIENT-TREATY 505234	2,319	1.22
Atsushi Otsuka	1,950	1.02

Note: 1. The number of shares held is rounded down to the nearest thousand.  
2. Equity ownership is calculated after deducting treasury stock (401,081 shares).  
3. Equity ownership is rounded down to two decimal places.

### (2) Share acquisition rights

Not applicable.

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

#### (i) Directors and Audit & Supervisory Board Members (As of December 31, 2022)

Position in the Company	Name	Responsibilities in the Company and significant concurrent positions outside the Company
President & Chief Executive Officer	Yuji Otsuka	General Manager of Marketing Headquarters <b>[Significant concurrent positions outside the Company]</b> President & Chief Executive Officer of Otsuka Sobi Co., Ltd.
Managing Director & Senior Executive Operating Officer	Kazuyuki Katakura	General Manager of Sales Headquarters, and Deputy General Manager of Marketing Headquarters
Managing Director & Senior Executive Operating Officer	Toshiyasu Takahashi	Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Information Department, General Manager of Tanomail Marketing Department, in charge of Marketing Automation Center, Customer Personalized Pages Promotion Center and Logistics Promotion Department <b>[Significant concurrent positions outside the Company]</b> Representative Director and President of LION OFFICE PRODUCTS CORP.
Managing Director & Executive Operating Officer	Hironobu Tsurumi	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, and General Manager of CAD Promotion Department <b>[Significant concurrent positions outside the Company]</b> Chairman of Otsuka Information Technology Corp.
Managing Director & Executive Operating Officer	Hironobu Saito	In charge of Project Promotion Office, General Manager of Business Administration Headquarters, in charge of Audit Office, Marketing Automation Center and Customer Personalized Pages Promotion Center
Managing Director & Operating Officer	Katsuhiro Yano	Executive Department Head of Regional Department, in charge of Complex Solutions Promotion Office
Managing Director & Operating Officer	Minoru Sakurai	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department, and Executive Department Head of TC Solution Department
Director	Jiro Makino	Attorney at law <b>[Significant concurrent positions outside the Company]</b> Director of MAKINO legal professional corporation
Director	Tetsuo Saito	<b>[Significant concurrent positions outside the Company]</b> Representative Director of Work Two Co., Ltd., Outside Audit and Supervisory Board Member of DD Holdings Co., Ltd., Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd., and Outside Director of Career Design Center Co., Ltd.

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

- Notes:
1. Directors Jiro Makino, Tetsuo Saito, and Makiko Hamabe are outside Directors. The Company has submitted notification to the Tokyo Stock Exchange that Jiro Makino, Tetsuo Saito and Makiko Hamabe have been designated as independent officers as provided for by the aforementioned exchange.
  2. Audit & Supervisory Board Members Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa are outside Audit & Supervisory Board Members. The Company has submitted notification to the Tokyo Stock Exchange that Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa have been designated as independent officers as provided for by the aforementioned exchange.
  3. Audit & Supervisory Board Members Kazuhiko Nakai and Etsuo Hada have considerable knowledge of finance and accounting as certified public accountants.
  4. Director Makiko Hamabe was an outside Director of SoldOut, Inc.; however, she resigned from this position on July 11, 2022.
  5. The Directors' roles transferred during the fiscal year under review were as follows.

(Amendments are underlined.)

Name	New role	Previous role	Transfer date
Katsuhiro Yano	In charge of Complex Solutions Promotion, Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office, in charge of Area Promotion Department	In charge of Complex Solutions Promotion, Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office, <u>General Manager of Major Customers Special Sales Department</u> , in charge of Area Promotion Department	January 1, 2022
Toshiyasu Takahashi	Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Information Department, General Manager of Tanomail Marketing Department, in charge of Marketing Automation Center, Customer Personalized Pages Promotion Center <u>and Logistics Promotion Department</u>	Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Information Department, General Manager of Tanomail Marketing Department, <u>General Manager of Logistics Promotion Department</u> , in charge of Marketing Automation Center and Customer Personalized Pages Promotion Center	July 1, 2022
Katsuhiro Yano	Executive Department Head of Regional Department, <u>in charge of Complex Solutions Promotion Office</u>	<u>In charge of Complex Solutions Promotion</u> , Executive Department Head of Regional Department, <u>General Manager of Complex Solutions Promotion Office, in charge of Area Promotion Department</u>	July 1, 2022

6. The Company introduced the Executive Officer System. Managing Officers, excluding those concurrently serving as the Directors, are as follows. (As of December 31, 2022)

Executive Managing Officer	Yasuo Amako	Advisor in charge of Osaka Northern Sales Dept. and Osaka Southern Sales Dept.
Executive Managing Officer	Ryosuke Mizutani	Executive Department Head of Telecommunication Network Department, General Manager of Telecommunication Network Promotion Department
Executive Managing Officer	Kazuki Kimura	General Manager of Northern Kanto Sales Dept.
Senior Managing Officer	Kazuhiko Goto	Head of Outbound Marketing Management Center, General Manager of Integrated Strategy Planning Department, General Manager of Security 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
Senior Managing Officer	Toshio Otani	Head of Total Solution Group, Head of Inside Business Center, Head of SPR / CRM Center
Senior Managing Officer	Junichi Sekiguchi	Executive Department Head of Support Center, Head of Tayoreru Management Center
Senior Managing Officer	Yoshiaki Inooka	Branch Manager of Chubu Branch
Senior Managing Officer	Hiroshi Muto	Assistant to Executive Department Head of CAD Department, General Manager of PLM Solution Department
Senior Managing Officer	Takahiro Jinushi	Head of Marketing Automation Center
Managing Officer	Norihide Seino	General Manager of Kanagawa Sales Dept.
Managing Officer	Hidenori Takamatsu	General Manager of Total Information System Office
Managing Officer	Tadashi Egawa	General Manager of Keiyo Sales Dept.
Managing Officer	Koichiro Yamada	Executive Department Head of Industry SI Department, General Manager of Headquarters SI Supervision and General Manager of Industry SI Promotion Department
Managing Officer	Hitoshi Asano	Head of Service Center
Managing Officer	Kazuhiro Kohara	Executive Division Manager of LA Division, General Manager of Broad Regional Sales Department, LA Division, General Manager of AMG Sales Department, LA Division, General Manager of LA Support
Managing Officer	Isao Murakami	Executive Division Manager of BP Division, General Manager of East Japan Sales Department, BP Division, General Manager of MA/CAD Sales Department, BP Division, General Manager of BPMRO Sales Department
Managing Officer	Yoshihiro Tokura	Assistant to Executive Department Head of Industry SI Department
Managing Officer	Shinichi Asaka	Head of Application Solution Center
Managing Officer	Koichi Hisano	Head of President's Office, General Manager of Compliance Office
Managing Officer	Hiroki Saito	General Manager of Chuo Sales Dept. 1
Managing Officer	Tomohiro Tsuchiya	Assistant to Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Sales Division



Managing Officer	Hiroki Yamaguchi	Total Solution Master
Managing Officer	Kenji Watanabe	Total Solution Master
Managing Officer	Tatsuya Shimizu	Head of Technical Solution Center
Managing Officer	Shigeru Koizumi	General Manager of Human Resources and General Affairs Department
Managing Officer	Kazuo Uneno	General Manager of Finance and Accounting Department
Managing Officer	Shinji Koike	Assistant to Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office
Managing Officer	Teruki Ashihara	General Manager of Osaka Southern Sales Dept.
Managing Officer	Kenji Kuwabara	Assistant to Head of Application Solution Center
Managing Officer	Kazuya Hamaguchi	Head of tayoreru Management Service Center
Managing Officer	Hiroshi Iwamiya	General Manager of Product Department
Managing Officer	Hironaga Shimojo	General Manager of Cloud Infrastructure Promotion Department
Managing Officer	Naoko Sano	General Manager of Operation Administration Department

**(ii) Summary of details of contract of limited liability**

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

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

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

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

The Company and its subsidiaries bear the insurance expenses of the said insurance policy in full.

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

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

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

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

[Policy for Determining Remuneration for Directors]

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

- i) Basic remuneration is paid on a monthly basis in an amount determined after giving comprehensive consideration to the evaluation of the performance over prior fiscal years of the division that the individual director is responsible for, and considering the balance between the level of remuneration at other companies and the salary of employees.
- ii) In order to ensure that bonuses are linked to the level of contribution to the operation of the Company, they are based on the Company's overall performance over the period they cover, the performance of the division the Director is in charge of, and each individual Director's level of contribution to the performance, while ensuring transparency with regard to the bonus's correlation with performance and keeping within a level of payment decided beforehand that corresponds to the level of achievement of the target value for operating profit, which has a strong correlation with the share price. Bonuses are paid in an amount determined accordingly annually in July and December.
- iii) Earnings bonuses are paid around February and August of each year in an amount as determined according to the rate of achievement of the operating profit target at the second

quarter closing and at the fiscal year closing, and their payment is in accordance with the fiscal year closing and second-quarter closing system for employees.

- iv) Retirement benefits for officers are paid to officers in accordance with the provisions of rules on retirement benefits as consideration for the performance of duties, and an annual basic amount set for each rank of full-time Director is accrued, and the cumulative amount(\*) is calculated at the time of the Director's retirement based on a resolution of the General Meeting of Shareholders.
- v) The defined contribution corporate pension plan is the highest amount awarded to employees and contributed at a constant amount every month for full-time Directors under 60 years old in accordance with the defined contribution pension rules that have been established by a resolution of the Board of Directors.

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

As per the above policy, the Nomination and Compensation Committee, an advisory body to the Board of Directors, deliberates i). basic remuneration, ii). bonuses, and iv). retirement benefits for officers as well as remuneration for outside Directors. The said committee then reports the results of its deliberations to the Board of Directors, which makes determinations. The Nomination and Compensation Committee is comprised of five or more Directors elected by resolution of the Board of Directors, and a majority of the members are independent outside Directors. The Chairperson is elected by resolution of the Nomination and Compensation Committee from among the members who are independent outside Directors.

[Reference]

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

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

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

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

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

Compensation for outside Audit and Supervisory Board Members is monetary remuneration, and only fixed basic remuneration is paid. The amount of basic remuneration is determined through discussions among the Audit and Supervisory Board Members and is paid monthly.

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

Class	Total Remuneration (Millions of yen)	Breakdown of remuneration (Millions of yen)			Number of officers (Persons)
		Fixed remuneration	Performance- linked remuneration	Retirement benefits	
Directors (excluding outside Directors)	346	241	72	33	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	25	24	–	0	1
Outside Director	39	39	–	–	3
Outside Audit & Supervisory Board Member	22	22	–	–	3

- Notes: 1. The amount of remuneration for Directors does not include the employee salary portion in the case of Directors who concurrently serve as employees.
2. The amount of annual remuneration for Directors is up to ¥650 million, as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include the portion of employee salaries). At the conclusion of said General Meeting of Shareholders, the number of Directors was 18.

3. The amount of annual remuneration for Audit & Supervisory Board Members is up to ¥50 million, as approved at the General Meeting of Shareholders on March 30, 2005. At the conclusion of said Annual General Meeting of Shareholders, the number of Audit & Supervisory Board Members was four.
4. The increase in provision for retirement benefits for directors (and other officers) in the fiscal year under review is included in the above retirement benefits.
5. The actual results of the performance indicators used to calculate the amount of performance-linked remuneration for the fiscal year under review are as follows: for bonuses, operating profit of ¥47,605 million for the period subject to the bonuses (target: ¥49,180 million; achievement rate: 96.8%); and for earnings bonuses, operating profit of ¥48,299 million for the fiscal year (target: ¥46,800 million; achievement rate: 103.2%).
6. 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 Audit & Supervisory Board Member who was to continue to serve after the conclusion of the meeting, in an amount corresponding to the period of service up to the abolishment of the system.

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

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

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

Note: Outside Director Makiko Hamabe was an outside Director of SoldOut, Inc.; however, she resigned from this position on July 11, 2022.

**(ii) Major activities during the fiscal year**

Position	Name	Attendance, remarks, and summary of duties performed in relation to the roles expected of outside Directors
Outside Director	Jiro Makino	Jiro Makino attended 18 of the 19 meetings of the Board of Directors held during the fiscal year under review. He proactively states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a lawyer. In the fiscal year under review, he expressed opinions on capital investments, corporate governance reports, monthly financial results, and other matters. As the chairperson of the Nomination and Compensation Committee, he also attended all three meetings of the said committee held during the fiscal year under review and performed a supervisory function from an objective and neutral perspective in the process of determining officer remuneration, etc. of the Company.
Outside Director	Tetsuo Saito	Tetsuo Saito attended all 19 meetings of the Board of Directors held during the fiscal year under review. Over the years, he has been involved in the management of numerous companies in many different industries, and proactively states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors. In the fiscal year under review, he expressed opinions on announced plans, changes in Managing Officers, capital investments, corporate governance reports, and other matters. As a member of the Nomination and Compensation Committee, he also attended all three meetings of the said committee held during the fiscal year under review and performed a supervisory function from an objective and neutral perspective in the process of determining officer remuneration, etc. of the Company.
Outside Director	Makiko Hamabe	Makiko Hamabe attended all 19 meetings of the Board of Directors held during the fiscal year under review. She proactively states her opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors by leveraging a high level of knowledge regarding ESG and IR. In the fiscal year under review, she expressed opinions on dividends, quarterly financial results, results of voting rights exercise at the general meeting of shareholders, and revisions to the rules etc. As a member of the Nomination and Compensation Committee, she also attended all three meetings of the said committee held during the fiscal year under review and performed a supervisory function from an objective and neutral perspective in the process of determining officer remuneration, etc. of the Company.

Position	Name	Attendance and remarks
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	Kazuhiko Nakai attended all 19 meetings of the Board of Directors and 14 of the 15 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a certified public accountant and tax accountant. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.
Outside Audit & Supervisory Board Member	Etsuo Hada	Estuo Hada attended all 19 meetings of the Board of Directors and all 15 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a certified public accountant, tax accountant, judicial scrivener, and administrative scrivener. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	Katsumasa Minagawa attended all 19 meetings of the Board of Directors and all 15 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at meetings of the Board of Directors from a professional standpoint as a lawyer. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.

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



## **(5) Independent Auditor**

**(i) Name** Ernst & Young ShinNihon LLC

**(ii) Amount of remuneration for Independent Auditor for the fiscal year**

(Millions of yen)

Class	For auditing and certification services	Non-auditing services
The Company	73	–
Consolidated subsidiaries	17	–
Total	91	–

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

### **(iii) Details of non-auditing services**

Not applicable.

### **(iv) Policy on dismissal or determining non-reappointment of Independent Auditor**

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

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

### **(v) Summary of details of contract of limited liability**

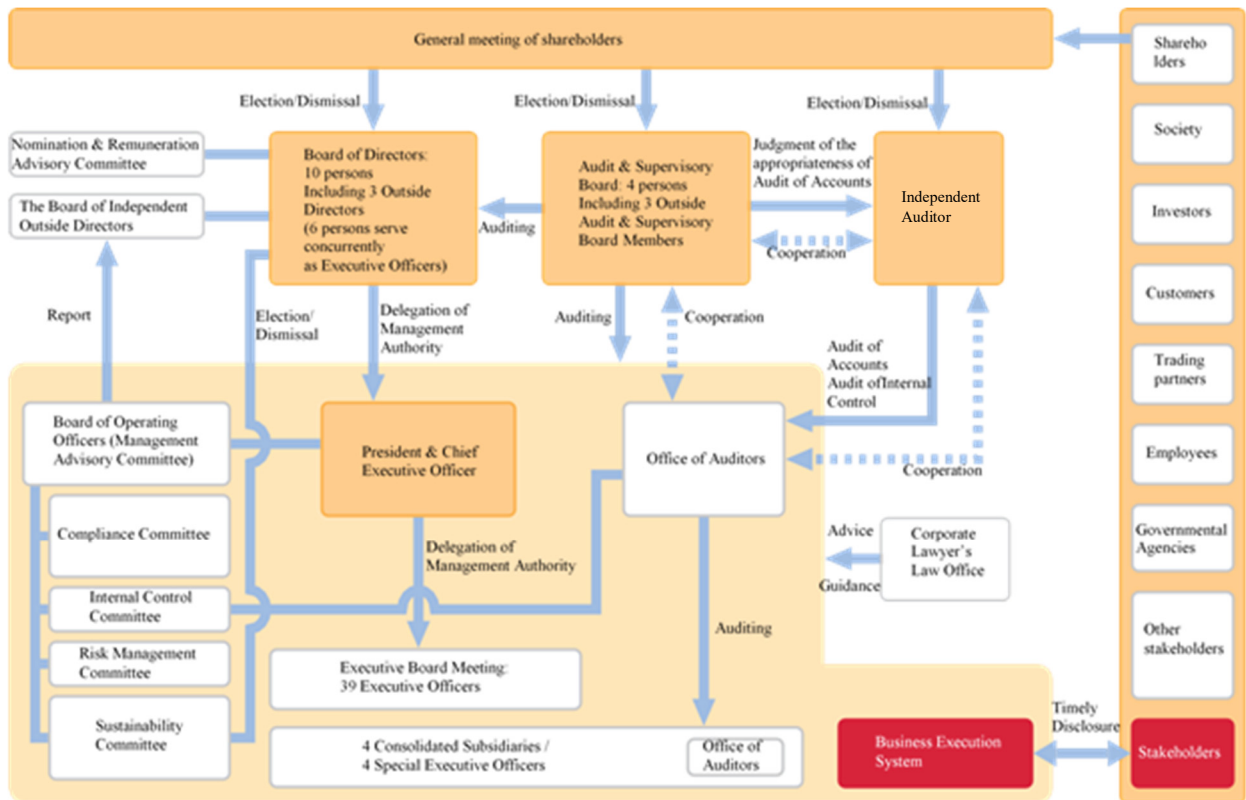
Not applicable.

(Reference) Corporate Governance

(i) Basic approach to corporate governance

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

(ii) Corporate Governance System of the Group



## (Reference) Sustainability

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

### Sustainability Basic Policy

#### 1. Environmental

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

#### 2. Social

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

#### 3. Governance

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

Date of establishment: April 13, 2022

Please refer to our website for specific initiatives.

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

## Consolidated Financial Statements

### Consolidated Balance Sheets (As of December 31, 2022)

(Millions of yen)

Account	Amount	Account	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>435,113</b>	<b>Current liabilities</b>	<b>190,683</b>
Cash and deposits	202,288	Notes and accounts payable - trade	99,517
Notes and accounts receivable - trade, and contract assets	152,405	Electronically recorded obligations - operating	19,443
Merchandise	42,636	Short-term borrowings	4,400
Work in process	1,435	Current portion of long-term borrowings	1,700
Raw materials and supplies	759	Income taxes payable	9,077
Other	35,670	Contract liabilities	16,139
Allowance for doubtful accounts	(83)	Provision for bonuses	3,885
		Other	36,520
<b>Non-current assets</b>	<b>87,902</b>	<b>Non-current liabilities</b>	<b>9,600</b>
<b>Property, plant and equipment</b>	<b>35,835</b>	Lease obligations	1,413
Buildings and structures	14,868	Provision for retirement benefits for directors	721
Land	14,797	Retirement benefit liability	6,360
Other	6,169	Other	1,105
<b>Intangible assets</b>	<b>15,770</b>	<b>Total liabilities</b>	<b>200,283</b>
Software	15,711	<b>Net assets</b>	
Other	59	<b>Shareholders' equity</b>	<b>315,149</b>
<b>Investments and other assets</b>	<b>36,296</b>	Share capital	10,374
Investment securities	22,678	Capital surplus	16,254
Guarantee deposits	2,335	Retained earnings	288,660
Deferred tax assets	6,859	Treasury shares	(140)
Deferred tax assets for land revaluation	2,833	<b>Accumulated other comprehensive income</b>	<b>4,239</b>
Other	1,730	Valuation difference on available-for- sale securities	6,835
Allowance for doubtful accounts	(140)	Deferred gains or losses on hedges	(26)
		Revaluation reserve for land	(6,141)
		Foreign currency translation adjustment	200
		Remeasurements of defined benefit plans	3,371
		<b>Non-controlling interests</b>	<b>3,343</b>
		<b>Total net assets</b>	<b>322,732</b>
<b>Total assets</b>	<b>523,016</b>	<b>Total liabilities and net assets</b>	<b>523,016</b>

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

**Consolidated Statements of Income**  
(From January 1, 2022 to December 31, 2022)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>861,022</b>
<b>Cost of sales</b>		<b>676,853</b>
<b>Gross profit</b>		<b>184,169</b>
<b>Selling, general and administrative expenses</b>		<b>129,400</b>
<b>Operating profit</b>		<b>54,768</b>
<b>Non-operating income</b>		
Interest income	17	
Dividend income	253	
Rental income from buildings	227	
Income from recycling	230	
Share of profit of entities accounted for using equity method	661	
Foreign exchange gains	335	
Other	295	2,022
<b>Non-operating expenses</b>		
Interest expenses	43	
Donations	100	
Other	7	151
<b>Ordinary profit</b>		<b>56,639</b>
<b>Extraordinary income</b>		
Gain on sale of non-current assets	460	
Gain on sale of investment securities	687	1,147
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	65	
Impairment losses	1,120	
Loss on valuation of investment securities	91	1,277
<b>Profit before income taxes</b>		<b>56,509</b>
Income taxes - current	16,840	
Income taxes - deferred	(842)	15,998
<b>Profit</b>		<b>40,511</b>
Profit attributable to non-controlling interests		488
<b>Profit attributable to owners of parent</b>		<b>40,022</b>

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

## Non-consolidated Financial Statements

### Balance Sheets (As of December 31, 2022)

(Millions of yen)

Account	Amount	Account	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>388,329</b>	<b>Current liabilities</b>	<b>179,175</b>
Cash and deposits	188,877	Notes payable - trade	30
Notes receivable - trade	3,353	Electronically recorded obligations - operating	19,443
Accounts receivable - trade	124,035	Accounts payable - trade	89,323
Contract assets	920	Short-term borrowings	3,400
Merchandise	37,512	Current portion of long-term borrowings	1,700
Work in process	1,300	Accounts payable - other	21,298
Raw materials and supplies	739	Income taxes payable	7,950
Advance payments to suppliers	9,567	Contract liabilities	10,765
Accounts receivable - other	17,604	Deposits received	14,363
Other	4,501	Provision for bonuses	3,429
Allowance for doubtful accounts	(82)	Other	7,470
<b>Non-current assets</b>	<b>84,921</b>	<b>Non-current liabilities</b>	<b>10,480</b>
<b>Property, plant and equipment</b>	<b>35,693</b>	Lease obligations	1,392
Buildings	14,784	Provision for retirement benefits	7,424
Land	14,797	Provision for retirement benefits for directors	587
Other	6,111	Other	1,077
<b>Intangible assets</b>	<b>15,381</b>	<b>Total liabilities</b>	<b>189,655</b>
Software	15,338	<b>Net assets</b>	
Other	42	<b>Shareholders' equity</b>	<b>283,010</b>
<b>Investments and other assets</b>	<b>33,847</b>	<b>Share capital</b>	<b>10,374</b>
Investment securities	14,454	<b>Capital surplus</b>	<b>16,254</b>
Shares of subsidiaries and associates	7,172	Legal capital surplus	16,254
Guarantee deposits	1,743	<b>Retained earnings</b>	<b>256,521</b>
Deferred tax assets	5,841	Legal retained earnings	2,593
Deferred tax assets for land revaluation	2,833	Other retained earnings	253,927
Other	1,942	Reserve for tax purpose reduction to promote open innovation	37
Allowance for doubtful accounts	(140)	General reserve	67,350
		Retained earnings brought forward	186,540
		<b>Treasury shares</b>	<b>(140)</b>
		<b>Valuation and translation adjustments</b>	<b>584</b>
		Valuation difference on available-for-sale securities	6,726
		Revaluation reserve for land	(6,141)

<b>Account</b>	<b>Amount</b>	<b>Account</b>	<b>Amount</b>
		<b>Total net assets</b>	<b>283,595</b>
<b>Total assets</b>	<b>473,250</b>	<b>Total liabilities and net assets</b>	<b>473,250</b>

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

**Statements of Income**  
(From January 1, 2022 to December 31, 2022)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>767,649</b>
<b>Cost of sales</b>		<b>598,148</b>
<b>Gross profit</b>		<b>169,501</b>
<b>Selling, general and administrative expenses</b>		<b>121,201</b>
<b>Operating profit</b>		<b>48,299</b>
<b>Non-operating income</b>		
Interest income	14	
Dividend income	1,816	
Rental income from buildings	221	
Income from recycling	230	
Other	294	2,576
<b>Non-operating expenses</b>		
Interest expenses	78	
Donations	100	
Other	5	183
<b>Ordinary profit</b>		<b>50,692</b>
<b>Extraordinary income</b>		
Gain on sale of non-current assets	428	
Gain on sale of investment securities	687	1,116
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	58	
Impairment losses	1,120	
Loss on valuation of investment securities	91	1,269
<b>Profit before income taxes</b>		<b>50,538</b>
Income taxes - current	14,672	
Income taxes - deferred	(764)	13,907
<b>Profit</b>		<b>36,631</b>

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



(TRANSLATION)

## Accounting audit report on the consolidated financial statements

### Independent Auditor's Report (Translation)

February 13, 2023

OTSUKA CORPORATION  
The Board of Directors

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

Designated Engagement Partner	Certified Public Accountant	<b>Seiji Yamamoto</b>
Designated Engagement Partner	Certified Public Accountant	<b>Tomo Ito</b>
Designated Engagement Partner	Certified Public Accountant	<b>Hideaki Keyaki</b>

#### Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to the consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries (the "Group") applicable to the fiscal year from January 1, 2022 to December 31, 2022.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and results of operations of the Group applicable to the fiscal year ended December 31, 2022, in accordance with accounting principles generally accepted in Japan.

#### Basis for Opinion

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

#### Other Information

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

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

and the consolidated financial statements or our knowledge obtained in the course of audit, and to pay attention to whether there are other indications of material errors in the other information besides such material differences.

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

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

### **Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements**

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

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

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

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

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

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

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

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

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

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

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

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

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

(TRANSLATION)

## Accounting audit report on the non-consolidated financial statements

### Independent Auditor's Report (Translation)

February 13, 202

OTSUKA CORPORATION  
The Board of Directors

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

Designated Engagement Partner	Certified Public Accountant	<b>Seiji Yamamoto</b>
Designated Engagement Partner	Certified Public Accountant	<b>Tomo Ito</b>
Designated Engagement Partner	Certified Public Accountant	<b>Hideaki Keyaki</b>

#### Opinion

Pursuant to Article 436, paragraph 2, item (i) of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the balance sheet, the statement of income, the statement of changes in equity, the notes to the non-consolidated financial statements and the related supplemental schedules (collectively, "non-consolidated financial statements, etc.") of OTSUKA CORPORATION (the "Company") applicable to the 62nd fiscal year from January 1, 2022 to December 31, 2022.

In our opinion, the non-consolidated financial statements, etc. referred to above present fairly, in all material respects, the financial position and results of operations of the Company, applicable to the fiscal year ended December 31, 2021, in accordance with accounting principles generally accepted in Japan.

#### Basis for Opinion

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

#### Other information

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

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

In connection with our audit of the non-consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

inconsistent with the non-consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

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

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

In preparing the non-consolidated financial statements, etc., management is responsible for assessing the 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 Non-consolidated Financial Statements, Etc.**

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

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

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

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

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

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

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

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

(TRANSLATION)

## **Audit Report of the Audit & Supervisory Board**

### **Audit Report**

Regarding the performance of duties by the Directors for the 62nd fiscal year from January 1, 2022 to December 31, 2022, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Audit & Supervisory Board Member and hereby report as follows:

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

- (1) We established auditing policies, allocation of duties and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Independent Auditor regarding performance of their duties, and sought explanations as necessary.
- (2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the internal auditing and other employees, made efforts to establish the environment for collecting information and auditing, and conducted the audit by the following methods.
  - (i) Each Audit & Supervisory Board Member participated in the meetings of the Board of Directors and other important meetings, received reports from people such as the Directors and employees regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the headquarters and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, and received business reports from subsidiaries as necessary.
  - (ii) We periodically received reports from Directors, employees and others, requested explanations as necessary, and expressed opinions, regarding the resolution of the Board of Directors on the establishment of following systems (Internal Control System) and the status of operation of the organized system based on such resolution, both of which are described in the business report;
    - i) the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and
    - ii) the system stipulated in Article 100, Paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act, which are necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries.
  - (iii) We monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, and we received reports from the Independent Auditor regarding the performance of its duties and sought explanations as necessary. In addition, we received notice from the Independent Auditor that “System for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Regulation on Corporate Accounting) is organized in accordance with the “Quality Management Standards Regarding Audits” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

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

## 2. Results of audit

### (1) Results of audit of business report

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

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

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

### (3) Results of audit of consolidated financial statements

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

February 14, 2023

Audit & Supervisory Board, OTSUKA CORPORATION

Standing Audit & Supervisory Board Member	Tatsumi Murata	(Seal)
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	(Seal)
Outside Audit & Supervisory Board Member	Etsuo Hada	(Seal)
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	(Seal)



## **System to Ensure the Properness of Operations and Its Operational Status**

### **(1) System to ensure the properness of operations**

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

(Final revision: April 13, 2020)

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

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

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

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

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

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

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

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

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

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

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

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

The Company holds the Group Management Committee to grasp the management status of consolidated subsidiaries and the progress towards achieving profit targets. The Company has established the Special Managing Officer System under which the President & Chief Executive

Officers of consolidated subsidiaries are appointed as the Special Managing Officers to promote thorough compliance in the consolidated subsidiaries and more robust corporate governance, and are requested to report on the status of business execution to the Board of Directors of the Company or President & Chief Executive Officer of the Company as necessary.

(b) Regulations and other systems for the management of risk of loss of subsidiaries

The Board of Directors of consolidated subsidiaries identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., and instructs to take appropriate measures.

At the Group Management Committee, information on risks identified by consolidated subsidiaries is shared to detect risks promptly and prevent the risks from materializing.

If unforeseen circumstances occur, the Company establishes a response headquarters within the Company, collects risk information, and takes prompt and proper response measures in cooperation with the consolidated subsidiary.

(c) System to ensure efficient execution of duties by directors, etc. of subsidiaries

Consolidated subsidiaries formulate annual plans aligned with the group's policies while ensuring their management's autonomy and independence. Each Company's targets and responsibilities are clarified, and variance between budget and the actual result is analyzed to achieve performance targets for the period. Consolidated subsidiaries establish the Rules of Board of Directors, hold the Board of Directors, deliberate on and resolve important matters concerning corporate management and supervise the status of business execution. In addition, various internal rules provide the details of business execution to enhance efficiency.

(d) System to ensure that execution of duties of directors and employees of subsidiaries complies with laws, regulations, and the articles of incorporation of the Company

Consolidated subsidiaries ensure the properness of operations by exerting a self-corrective function through business execution in accordance with the Mission Statement.

Consolidated subsidiaries raise awareness through continued compliance education, improve operation by establishing an internal audit office in each Company, and aim to improve the compliance system with the appropriate implementation of the internal reporting system established by the Company common for all consolidated subsidiaries, to ensure compliance with laws and regulations on the execution of duties and the Articles of Incorporation.

(e) Other systems to ensure the properness of operations by the corporate group comprised of the Company and its subsidiaries

The Audit Office of the Company receives reports on the results of internal audits performed by the internal audit office established in each consolidated subsidiary, and conducts regular audits at each consolidated subsidiary in order to audit the status of complying with laws, regulations, and rules, and gives necessary instructions.

**(vi) Matters Concerning Employees to Assist Duties of Audit & Supervisory Board Members When Such Board Members Request the Assignment of Such Employees**

With a request from Audit & Supervisory Board Members, appropriate personnel concurrently serving as employees are selected to assist Audit & Supervisory Board Members.

**(vii) Matters Concerning the Independence of Employees Referred to in the Previous Item from Directors and Ensuring the Effectiveness of Instructions Issued to Them by Audit & Supervisory Board Members**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Board of Directors consists of 10 members, including three outside Directors. The meeting of the Board of Directors was held 19 times during the current fiscal year to carry out deliberations on and resolve important matters requiring the resolution of the Board of Directors in accordance with the provisions of laws and regulations, and the Article of Incorporation, while supervising the execution of duties of Directors. The Board of Directors actively exchanges opinions on each proposal, ensuring the effectiveness of decision-making and supervision.

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

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

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

(b) Regulations and other systems for the management of risk of loss of subsidiaries

The Board of Directors of consolidated subsidiaries identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., and takes appropriate measures. In addition, the Company has a system under which the Group Management Committee shares information on significant risks. Further, the Company has not acknowledged any significant risks requiring information-sharing during the current fiscal year.

(c) System to ensure efficient execution of duties by directors, etc. of subsidiaries

Consolidated subsidiaries formulate annual plans in accordance with the Group's policy, working to achieve performance targets for the period. In addition, the consolidated subsidiaries provide the details of business execution under various internal rules, hold the Board of Directors, carry out deliberations on and resolve important matters, and supervise the status of execution of duties.

(d) System to ensure that execution of duties of directors and employees of subsidiaries complies with laws, regulations, and the articles of incorporation of the Company

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

The Internal Audit Office of the consolidated subsidiaries performs audits of overall business activities on a regular and required basis, offering specific advice and recommendations to improve operations and raise awareness and reports to President & Chief Executive Officer and Audit & Supervisory Board Members.

The consolidated subsidiaries make known to Directors and employees the internal reporting system common to the subsidiaries that the Company establishes.

(e) Other systems to ensure the properness of operations by the corporate group comprised of the Company and its subsidiaries

The Audit Office of the Company receives reports on the result of internal audits performed by each group company and advises as necessary.

**(vi) Matters Concerning Employees to Assist Duties of Audit & Supervisory Board Members When Such Board Members Request the Assignment of Such Employees**

The Compliance Office is in charge of assisting in the duties of Audit & Supervisory Board Members.

**(vii) Matters Concerning the Independence of Employees Referred to in the Previous Item from Directors and Ensuring the Effectiveness of Instructions Issued to Them by Audit & Supervisory Board Members**

The Compliance Office is an organization established within the Business Administration Headquarters and maintains independence by assisting in the duties of Audit & Supervisory Board Members based on instructions directly received from Audit & Supervisory Board Members.

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

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

Standing Audit & Supervisory Board Members receive reports on the status of business execution by attending important meeting bodies such as the Board of Directors.

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

received reports from the said persons

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

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

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

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

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

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

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

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

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

Consolidated Statement of Changes in Equity (from January 1, 2022 to 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

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



## Notes to Consolidated Financial Statements

### 1. Notes Regarding Basis of Preparation of Consolidated Financial Statements

(1) Disclosure of scope of consolidation

(i) Consolidated subsidiaries

Number of consolidated subsidiaries	4
Names of major consolidated subsidiaries	Networld Corporation

(ii) Unconsolidated subsidiaries

Names of major unconsolidated subsidiaries	Otsuka Auto Service Co., LTD.
Reason for exclusion from scope of consolidation	Unconsolidated subsidiaries are excluded from the scope of consolidation as the scale of each unconsolidated subsidiary is small and its net assets, net sales and profit (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., do not have any material impact on consolidated financial statements.

(2) Disclosure about application of the equity method

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

Number of unconsolidated subsidiaries and affiliates accounted for using equity method	3
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Names of major companies	LION OFFICE PRODUCTS CORP. Companies whose balance sheet date differs from the consolidated balance sheet date use financial statements prepared as of a balance sheet date closest to the consolidated balance sheet date, and material transactions arising between the balance sheet date and the consolidated balance sheet date are adjusted as required under the application of the equity method.
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(ii) Unconsolidated subsidiaries and affiliates not accounted for using equity method

Names of major companies	Otsuka Auto Service Co., LTD.
Reasons for not accounted for using equity method	Unconsolidated subsidiaries and affiliates not accounted for using the equity method are excluded from the scope of the application of the equity method as they do not have any material impact on consolidated financial statements in terms of each company's profit (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., even if they are excluded from the scope of the application of the equity method.

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

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

(4) Accounting policies

(i) Accounting policy for measuring significant assets

Available-for-sale securities

Other than securities without a market price Stated at market (the valuation difference is accounted for as a separate component of net assets and the cost of sales is calculated by using the moving average method)

Securities without a market price Stated at cost determined by the moving average method  
For investments in an investment limited partnership 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 equity interest is recorded based on the latest financial statements available accordingly to the financial statements' reporting date stipulated under the partnership agreement.

Derivatives

Stated at fair value

Inventories

Inventories held for sale in the ordinary course of business Stated at cost (with writing down of the carrying amount based on any decreased profitability)

Merchandise Mainly moving average method

Work in process Identified cost method

Raw materials and supplies Mainly moving average method

(ii) Accounting policy for depreciation of significant assets

Property, plant and equipment Declining balance method

(excluding leased assets) However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings and structures acquired on and after April 1, 2016.

Major useful lives are as follows:

Buildings and structures 15 to 50 years

Other 4 to 10 years

Intangible assets

(excluding leased assets)

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

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

Leased assets

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

(iii) Accounting policy for significant provisions

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

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

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

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

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

## System Integration Business

With respect to the sales of SI-related products that are included in the System Integration Business, we identify procuring copiers, PCs, servers, software, etc. from suppliers and providing to customers as performance obligations, and recognize revenues when the control of a relevant asset is transferred to the customer. However, for domestic sales transactions of goods shipped from the distribution centers of the Company and its consolidated subsidiaries, revenue is recognized at the time of shipment because the period between shipment of such assets and the transfer of control to the customer is a normal period of time. For certain transactions where other parties are involved, it is judged that the performance obligations of the Company and its consolidated subsidiaries are to make arrangements for the provision of a product or service by such other parties and that we engage in the transactions as an agent. Accordingly, revenues are recognized at a net amount.

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

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

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

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

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

(vi) Accounting policy for hedging

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

2) Hedging instruments and hedged items  
a. Hedging instruments: forward exchange contracts  
Hedged items: future transactions in foreign currencies

b. Hedging instruments: interest rate swaps  
Hedged items: borrowings

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

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

(vii) Other significant matters for preparing consolidated financial statements

Accounting policy for retirement benefits

a. Method of attributing expected retirement benefits to periods

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

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

Past service cost is amortized using the straight-line method over a certain number of years (primarily 12 years) within average remaining periods of service of employees as of the time when the past service cost was incurred.

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

## 2. Notes to Changes in Accounting Policies

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”) and others from the beginning of the current consolidated fiscal year, to recognize revenue in an amount expected to be received in exchange for promised goods or services upon the transfer of the control of the relevant goods or services to a customer.

As a result, with respect to transactions where the role of the Company Group is an agent in the provision of goods or services to a customer, the Company now recognizes revenue in an amount received from a customer, net of that to be paid to a supplier, whereas the Company had been recognizing revenue at the total amount of compensation to be received from the customer. Further, with regards to points granted in conjunction with the sales of products to customers in accordance with the points system operated by the Company, we had been recognizing revenues at the time of the sales of products. This has been changed to a method where points granted are recognized as performance obligations and revenues are deferred with the estimated number of points to be forfeited and other factors taken into account.

The Revenue Recognition Accounting Standard and others are applied in accordance with the transitional treatment set forth in Paragraph 84, proviso of the Revenue Recognition Accounting Standard. Accordingly, retained earnings at the beginning of the current consolidated fiscal year

have been adjusted for cumulative effects of applying the new accounting policy retrospectively to periods prior to the beginning of the current consolidated fiscal year, and the new accounting policy is applied from such beginning balance.

Further, “Notes and accounts receivable - trade” included in Current assets on the consolidated balance sheet for the previous consolidated fiscal year are included in “Notes and accounts receivable - trade, and contract assets” from the current fiscal year. “Advances received” that were included in Current liabilities are included in “Contract liabilities” from the current fiscal year.

As a result, compared with the former presentation method, the balance at the beginning of the consolidated fiscal year of “Notes and accounts receivable - trade, and contract assets” decreased ¥7,163 million, “Merchandise” increased ¥88 million, “Other” in Current assets increased ¥8,770 million, and “Deferred Tax Assets” increased ¥21 million. “Notes and accounts payable - trade” decreased ¥5,662 million, “Contract liabilities” increased ¥183 million, “Other” in Current liabilities increased ¥7,243 million, and Retained earnings decreased ¥47 million.

In addition, compared with the former presentation method, on the consolidated balance sheet for the consolidated fiscal year “Notes and accounts receivable - trade, and contract assets” decreased ¥7,597 million, “Merchandise” increased ¥109 million, “Other” in Current assets increased ¥9,216 million, and “Deferred Tax Assets” increased ¥21 million. “Notes and accounts payable - trade” decreased ¥5,900 million, “Contract liabilities” increased ¥194 million, and “Other” in Current liabilities increased ¥7,502 million. In the consolidated statements of income for the current consolidated fiscal year, Net sales and Cost of sales decreased ¥36,544 million and ¥36,077 million, respectively. Operating profit, Ordinary profit, and Profit before income taxes all decreased ¥0 million.

Since Net assets at the beginning of the current consolidated fiscal year were adjusted for cumulative effects, the beginning balance of Retained earnings on the consolidated statement of changes in equity decreased ¥47 million.

Information on the effect on per share information is provided in relevant places.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”) and others from the beginning of the current consolidated fiscal year. Further, in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied a new accounting policy prescribed by the Fair Value Measurement Accounting Standard and others. There are no impacts on the consolidated financial statements.

In addition, the Company has added a note regarding information on breakdown, etc. by appropriate category of fair values of financial instruments in the “Notes Regarding Financial Instruments.”

### **3. Notes to Accounting Estimates**

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

### **4. Notes to Consolidated Balance Sheet**

- |  |                    |
|--|--------------------|
| (1) Accumulated depreciation of property,<br>plant and equipment | 48,323 million yen |
|--|--------------------|

Accumulated depreciation includes accumulated impairment loss.

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

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

Notes receivable - trade	419 million yen
Notes payable - trade	3 million yen

## 5. Notes to Consolidated Statement of Changes in Equity

(1) Matters concerning total number of outstanding shares

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

(2) Matters concerning total number of treasury shares

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	400 thousand shares	0 thousand shares	-	401 thousand shares

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

(3) Dividends of surplus

(i) Dividends paid

Matters concerning dividends resolved by the 61st Annual General Meeting of Shareholders held on March 29, 2022

Total amount of dividends 22,752 million yen

Dividend per share 120 yen

Record date December 31, 2021

Effective date March 30, 2022

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

The Company will submit the following to the 62nd Annual General Meeting of Shareholders scheduled to be held on March 29, 2023.

Total amount of dividends 23,700 million yen

Dividend per share 125 yen

Record date December 31, 2022

Effective date March 30, 2023

(4) Matters concerning share acquisition rights at end of the current consolidated fiscal year

Not applicable.

## 6. Notes Regarding Financial Instruments

(1) Status of financial instruments

(i) Policy on financial instruments

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

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

Notes receivable - trade and accounts receivable - trade, which are trade receivables, are exposed to the credit risk of customers. The Company identifies promptly and reduces concerns over the collection of trade receivables caused by deterioration of financial conditions, etc.,



through comprehensive management of business partners' credit and regular management of collection date and account balance to minimize such risks.

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

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

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

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

(2) Fair values of financial instruments

Carrying amount, fair value, and their difference as of December 31, 2022, are as follows.

	Carrying amount	Fair value	Difference
(1) Investment securities(*2)			
1) Available-for-sale securities	11,405 million yen	11,405 million yen	- million yen
2) Shares of 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
Derivatives(*4)			
Derivative transaction to which hedge accounting is not applied	(81)	(81)	-
Derivative transaction to which hedge accounting is applied	(47)	(47)	-
Total derivatives	(129)	(129)	-

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

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

Class	Carrying amount
Shares not listed	9,867 million yen
Investments in investment limited partnerships, etc.	25

(\*3) "(2) Long-term borrowings" includes the current portion of long-term borrowings.

(\*4) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in parentheses.

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

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.  
 Level 1: Fair value measured by the market price of an asset or liability in active markets among the observable inputs

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

Level 3: Fair value measured by unobservable inputs

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

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

	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	11,405 million yen	- million yen	- million yen	11,405 million yen
Total assets	11,405	-	-	11,405
Derivatives				
Currency-related	-	129	-	129
Total liabilities	-	129	-	129

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

	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Shares of subsidiaries and affiliates	2,435 million yen	- million yen	- million yen	2,435 million yen
Total assets	2,435	-	-	2,435
Long-term borrowings*	-	1,700	-	1,700
Total liabilities	-	1,700	-	1,700

(\*) “Long-term borrowings” includes the current portion of long-term borrowings.

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

Investment securities

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

Derivatives

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

Long-term borrowings

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

**7. Notes Regarding Revenue Recognition**

(1) Information on the breakdown of revenues arising from contracts with customers

Information on the breakdown of revenues by main goods or services is as follows.

	Reportable segment		Total
	System Integration Business	Service and Support Business	
SI-related products	491,041 million yen	- million yen	491,041 million yen
Consigned software development, etc.	50,630	-	50,630
Supplies	-	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

Notes: "SI-related products" represent the sales of computers, copiers, communications equipment, software, and others.

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

"Supplies" represent the sales of office supplies and stationary products.

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

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

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

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

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

	Current fiscal year
Claims arising from contracts with customers (balance at beginning of period)	127,974 million yen
Claims arising from contracts with customers (balance at end of period)	151,484
Contract assets (balance at beginning of period)	647
Contract assets (balance at end of period)	920
Contract liabilities (balance at beginning of period)	15,930
Contract liabilities (balance at end of period)	16,139

Contract assets are rights to consideration received in exchange for the satisfied portion of performance obligations in contract software development included in the System Integration business at the beginning and end of the current fiscal year, excluding claims arising from contracts with customers. When the performance obligation is fully satisfied, conditions other than the passage of time are resolved, and the corresponding contract asset amount transfers to claims arising from contracts with customers.

Contract liabilities are the portion of consideration received from customers in excess of the amount already recognized as revenue in transactions in which maintenance and support is provided as a service, primarily included in the Service and Support business. Upon provision of these services, the performance obligation is satisfied and the contract liabilities transfer to revenue.

The amount of revenues that was included in the balance of contract liabilities at the beginning of the period out of the amount recognized during the current consolidated fiscal year is ¥10,569 million.

(ii) Transaction price allocated to remaining performance obligations

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

## 8. Notes on Per Share Information

(1) Net assets per share 1,684.53 yen

(2) Earnings per share (EPS) 211.09 yen

(Note) As stated in “2. Notes to Changes in Accounting Policies,” the Revenue Recognition Accounting Standard and others have been applied from the beginning of the current consolidated fiscal year. The impacts on net assets per share and earnings per share for the current consolidated financial year are immaterial.

## Statement of changes in equity (from January 1, 2022 to December 31, 2022)

(Millions of yen)

	Shareholders' equity									
	Share capital	Capital surplus		Legal retained earnings	Retained earnings			Total retained earnings	Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus		Other retained earnings					
					Reserve for tax purpose reduction to promote open innovation	General reserve	Retained earnings brought forward			
Balance at beginning of period	10,374	16,254	16,254	2,593	37	67,350	174,105	244,086	(139)	270,576
Cumulative effects of changes in accounting policies							(47)	(47)		(47)
Restated balance	10,374	16,254	16,254	2,593	37	67,350	174,057	244,038	(139)	270,528
Changes during period										
Dividends of surplus							(22,752)	(22,752)		(22,752)
Profit							36,631	36,631		36,631
Reversal of revaluation reserve for land							(1,396)	(1,396)		(1,396)
Purchase of treasury shares									(0)	(0)
Net changes in items other than shareholders' equity										
Total changes during period	-	-	-	-	-	-	12,482	12,482	(0)	12,481
Balance at end of period	10,374	16,254	16,254	2,593	37	67,350	186,540	256,521	(140)	283,010

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of period	8,540	(10,987)	(2,447)	268,128
Cumulative effects of changes in accounting policies				(47)
Restated balance	8,540	(10,987)	(2,447)	268,081
Changes during period				
Dividends of surplus				(22,752)
Profit				36,631
Reversal of revaluation reserve for land				(1,396)
Purchase of treasury shares				(0)
Net changes in items other than shareholders' equity	(1,813)	4,846	3,032	3,032
Total changes during period	(1,813)	4,846	3,032	15,514
Balance at end of period	6,726	(6,141)	584	283,595

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

## Notes to Financial Statements

### 1. Notes to Significant Accounting Policies

#### (1) Accounting policy for measuring assets

##### (i) Accounting policy for measuring securities

Shares of subsidiaries and affiliates stated at cost determined by the moving average method

Available-for-sale securities

Other than securities without a market price Stated at market (the valuation difference is accounted for as a separate component of net assets and the cost of sales is calculated by using the moving average method)

Securities without a market price Stated at cost determined by the moving average method  
For investments in an investment limited partnership 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 equity interest is recorded based on the latest financial statements available accordingly to the financial statements' reporting date stipulated under the partnership agreement.

##### (ii) Accounting policy for measuring derivatives

Derivatives Stated at fair value

##### (iii) Accounting policy for measuring inventories

Inventories held for sale in

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

Merchandise Moving average method

Work in process Identified cost method

Raw materials and supplies Mainly moving average method

#### (2) Accounting policy for depreciation of assets

##### (i) Property, plant and equipment

(excluding leased assets)

Declining balance method  
However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings and structures acquired on and after April 1, 2016.

Major useful lives are as follows:

Buildings 15 to 50 years

Other 4 to 20 years

##### (ii) Intangible assets

(excluding leased assets)

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

##### (iii) Leased assets

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

(3) Accounting policy for provisions

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

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

(iii) Provision for retirement benefits Provision for retirement benefits is recorded based on the estimated amount of retirement benefit obligation and pension assets at the end of the fiscal year under review.

a. Method of attributing expected retirement benefits to periods

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

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

Past service cost is amortized using the straight-line method over a certain number of years (12 years) within average remaining periods of service of employees as of the time when the past service cost was incurred.

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

(iv) Provision for retirement benefits for directors

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

(4) Accounting policy for recognition of revenues and expenses

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



## System Integration Business

With respect to the sales of SI-related products that are included in the System Integration Business, we identify procuring copiers, PCs, servers, software, etc. from suppliers and providing to customers as performance obligations, and recognize revenues when the control of a relevant asset is transferred to the customer. However, for domestic sales transactions of goods shipped from the distribution centers of the Company, revenue is recognized at the time of shipment because the period between shipment of such assets and the transfer of control to the customer is a normal period of time. For certain transactions where other parties are involved, it is judged that the performance obligations of the Company are to make arrangements for the provision of a product or service by such other parties and that we engage in the transactions as an agent. Accordingly, revenues are recognized at a net amount.

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

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

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

(5) Accounting policy for hedging

- |   |  |
|---|--|
| (i) Accounting policy for hedging                 | The special hedge accounting treatment is applied to interest rate swaps that qualify for such treatment.                            |
| (ii) Hedging instruments and hedged items         | Hedging instruments: interest rate swaps<br>Hedged items: borrowings   |
| (iii) Hedging policy                              | Based on internal rules of derivative transactions, the hedging policy aims to avoid fluctuation risk of interest rate.              |
| (iv) Method for assessing the hedge effectiveness | The Company omits evaluation of effectiveness for interest rate swaps since they satisfy the requirements for the special treatment. |

(6) Other significant information for preparation of financial statements

Accounting policy for retirement benefits The accounting treatment of unrecognized actuarial gains and losses of retirement benefits and unrecognized past service costs differ from those applied to the consolidated financial statements.

## 2. Notes to Changes in Accounting Policies

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Accounting Standard”) and others from the beginning of the current fiscal year, to recognize revenue in the amount expected to be received in exchange for promised goods or services upon the transfer of the control of the relevant goods or services to a customer.

As a result, with respect to transactions where the role of the Company is an agent in the provision of goods or services to a customer, the Company now recognizes revenue in an amount received from a customer, net of that to be paid to a supplier, whereas the Company had been recognizing revenue at the total amount of compensation to be received from the customer. Further, with regards to points granted in conjunction with the sales of products to customers in accordance with points system operated by the Company, we had been recognizing revenues at the time of the sales of products. This has been changed to a method where 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.

The Revenue Recognition Accounting Standard and others are applied in accordance with the transitional treatment set forth in Paragraph 84, proviso of the Revenue Recognition Accounting Standard. Accordingly, retained earnings brought forward at the beginning of the current fiscal year have been adjusted for cumulative effects of applying the new accounting policy retrospectively to periods prior to the beginning of the current fiscal year, and the new accounting policy is applied from such beginning balance.

Further, “Notes receivable - trade” and “Accounts receivable - trade” included in Current assets in the balance sheet for the previous fiscal year are included in “Notes receivable - trade,” “Accounts receivable - trade” and “Contract assets” from the current fiscal year. “Advances received” that were included in Current liabilities are included in “Contract liabilities” from the current fiscal year.

As a result, compared with the former presentation method, the balance at the beginning of the fiscal year of “Accounts receivable - trade” decreased ¥7,811 million, and “Contract assets” increased ¥647 million, “Merchandise” increased ¥88 million, “Accounts receivable - other” increased ¥8,770 million, and “Deferred Tax Assets” increased ¥21 million. “Accounts payable - trade” decreased ¥5,662 million, “Accounts payable - other” increased ¥7,120 million, “Contract liabilities” increased ¥183 million, and “Other” in Current liabilities increased ¥122 million. This resulted in a decrease in Retained earnings brought forward by ¥47 million.

In addition, compared with the former presentation method, on the balance sheet for the current fiscal year “Accounts receivable - trade” decreased ¥8,517 million, “Contract assets” increased ¥920 million, “Merchandise” increased ¥109 million, “Accounts receivable - other” increased ¥9,216 million, and “Deferred Tax Assets” increased ¥21 million. “Accounts payable - trade” decreased ¥5,900 million, “Accounts payable - other” increased ¥7,358 million, “Contract liabilities” increased ¥194 million, and “Other” in Current liabilities increased ¥143 million. In the statements of income for the current fiscal year, Net sales and Cost of sales decreased ¥36,544 million and ¥36,077 million, respectively. Operating profit, Ordinary profit, and Profit before income taxes all decreased ¥0 million. Since Net assets at the beginning of the current fiscal year were adjusted for cumulative effects, the beginning balance of Retained earnings

brought forward in the statement of changes in equity decreased ¥47 million.

Since Net assets at the beginning of the current fiscal year were adjusted for cumulative effects, the beginning balance of Retained earnings on the Statement of Changes in Equity decreased ¥47 million.

Information on the effect on per share information is provided in relevant places.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Accounting Standard”) and others from the beginning of the current fiscal year. Further, in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied a new accounting policy prescribed by the Fair Value Measurement Accounting Standard and others. There are no impacts on the non-consolidated financial statements.

### 3. Notes to Accounting Estimates

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

### 4. Notes to Balance Sheet

- |  |                    |
|--|--------------------|
| (1) Accumulated depreciation of property, plant and equipment  | 47,553 million yen |
| Accumulated depreciation includes accumulated impairment loss.   |                    |
| (2) Contingent liabilities   |                    |
| The Company provides a debt guarantee of ¥1,856 million for purchase obligations from an affiliated company, Networld Corporation.   |                    |
| (3) Notes matured at the end of the fiscal year  |                    |
| In the accounting treatment of notes matured at the end of the fiscal year, they were treated as having been settled on the maturity date, even though the end of the current fiscal year fell on a holiday of financial institutions. |                    |
| Notes receivable - trade   | 416 million yen    |
| Notes payable - trade  | 3 million yen      |
| (4) Monetary claims and monetary debts to/from subsidiaries and affiliates   |                    |
| (i) Short-term monetary claims   | 2,037 million yen  |
| (ii) Short-term monetary debts   | 15,262 million yen |

### 5. Notes to Statements of Income

Total transactions with subsidiaries and affiliates	
Operating transactions	
Net sales	7,512 million yen
Purchase	43,293 million yen
Selling, general and administrative expenses	6,260 million yen
Non-operating transactions	2,521 million yen

## 6. Notes to Statement of Changes in Equity

Matters concerning total number of treasury shares

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	400 thousand shares	0 thousand shares	–	401 thousand shares

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

## 7. Notes Regarding Tax Effect Accounting

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

Deferred tax assets	(Millions of yen)
Allowance for doubtful accounts	68
Accrued business office tax	581
Provision for bonuses	1,050
Provision for retirement benefits	2,273
Provision for retirement benefits for directors	179
Impairment losses	1,165
Software development expenses	1,310
Other	2,198
Subtotal	8,827
Valuation allowance	(20)
Total	8,807
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(2,960)
Other	(5)
Total	(2,966)
Net deferred tax assets	5,841

## 8. Notes Regarding Transactions with Related Parties

### Subsidiaries and affiliates

Attribute	Names of companies	Share capital (Millions of yen)	Description of business	Voting rights held (%)	Relationship with related parties	Description of transactions	Transaction amount (Millions of yen)	Account	Balance at end of period (Millions of yen)
Subsidiary(ies)	Networld Corporation	585	Sales and technical support for network related equipment	(Ownership) Direct 81.5	Purchase of the Company's products	Purchase of products	23,747	Accounts payable - trade	2,762

Transaction conditions and policies to decide transaction conditions, etc.

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

## 9. Notes Regarding Revenue Recognition

Underlying information to understand revenues

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

## 10. Notes on Per Share Information

(1) Net assets per share 1,495.75 yen

(2) Earnings per share (EPS) 193.20 yen

(Note) As stated in "2. Notes to Changes in Accounting Policies," the Revenue Recognition Accounting Standard and others have been applied from the beginning of the current fiscal year. The impacts on net assets per share and earnings per share for the current financial year are immaterial.