

OTSUKA CORPORATION

Integrated Report **2022**

Advancing IT solutions
with our customers in mind



Otsuka Corporation

Mission Statement

The mission statement of the OTSUKA CORPORATION Group represents an internal and external declaration of its social role, responsibility and raison d'être in terms of its mission, goals and principles for daily activities.

Mission Statement

Mission

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

Goals

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

Principles

- Always think from the customer's perspective and act through harmonious teamwork
- Maintain the spirit of challenge inherited from our predecessors, exercise our own critical judgment, and act on our own initiative
- Fully comply with all prevailing laws and regulations, and maintain high ethical standards

Otsuka Corporation

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Editing policies

The Report aims to clearly explain to stakeholders the Company's mid- and long-term business strategies and process of solving ESG issues through business. For editing, the Company has referred to the International Integrated Reporting Framework by International Integrated Reporting Council (IIRC) and the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation by the Ministry of Economy, Trade and Industry.

Reported period

From January 1 to December 31, 2021

- To report the latest situation, the Report contains information on activities carried out after the reported period.
- "FY2021" and "fiscal year ended December 31, 2021" in the Report mean the period from January 1 to December 31, 2021, unless otherwise stated.

Notes on forward-looking statements

The forecasts, plans, and outlooks concerning future business results in the Report are judgements believed to be reasonable by the Company's management based on currently available information. Actual results may differ significantly from the forecasts, plans, and outlooks in the Report due to changes in various factors. Such factors include changes in the economic situation of major markets and in product demand, changes in foreign exchange, and changes in domestic and international regulations as well as accounting standards and practices.

President's Message



Yuji Otsuka,
President & Chief Executive Officer

We continue to get close to and grow together with our customers

Our new Integrated Report

In April 2022, OTSUKA CORPORATION moved to the Tokyo Stock Exchange's Prime Market, which had been created to replace the exchange's First Section as its top-ranking market. The Prime Market demands extremely high standards of issuers, especially in terms of their governance, earnings base, and financial condition. As an issuer listed on this market, therefore, we are committed to working with stakeholders to enhance our corporate value through sustainable growth.

As one means to that end, we revamped our usual Annual Report, relaunching it in the form of this Integrated Report. Our new Integrated Report will be a tool for engaging with you, our stakeholders, to facilitate constructive dialogue. We will keep you informed about what the OTSUKA CORPORATION Group is doing to create value over the medium to long term by ensuring that we include all relevant financial and non-financial information.

Leveraging a localized system of support and a scientific sales style to build a sustainable business model for the long term

OTSUKA CORPORATION was founded in 1961 as a vendor of copiers, and we subsequently prided ourselves on our **localized system**¹ of support for customers. This enabled us to ensure that their operations continued uninterrupted by delivering copier paper as soon as it started to run out, or sending a technician round immediately when a machine stopped running smoothly. Over the years, meticulous attention to our customers' needs and expansion of our product lineup have enabled us to build a unique customer base centered on small- and medium-sized enterprises.

When Japan's asset bubble burst in the early 1990s, however, OTSUKA CORPORATION found itself in a difficult situation characterized by decreased profitability, among other challenges. We responded by redefining the type of company

we aspired to be and launching our **Otsuka Strategy**² project to configure a new operational setup. This required an overhaul of our core systems, and a second phase which involved starting development of our **SPR**³ (Sales Process Re-engineering) system. This proprietary system developed in-house is designed to coordinate our core systems with information systems combining CRM (customer relationship management) and SFA (sales force automation). This project could be described as a precursor to the DX (digital transformation) that is currently a focus of attention in Japan.

The core systems we overhauled as part of our Otsuka Strategy stores histories of transactions with customers, while the information-oriented SPR system is a database comprising mainly business negotiation records. Leveraging these two

systems in conjunction has given us unprecedented ability to visualize individual customers' circumstances, enabling us to offer optimal proposals attuned to their specific needs.

Our SPR system started to produce results from about 2003, when we began to see a higher proportion of negotiations culminating in contracts, among other benefits. **Improved productivity has yielded benefits⁴** that we pass on to employees by giving them more days off, while it has also enabled us to continue growing as a company without increasing our workforce. Our customers have benefited too, as we can offer them the same high level of service at lower prices. Thus, we have created a sustainable business model that generates a triple-win situation whereby customers, employees, and the Company itself all benefit.

Our SPR system helped to improve our productivity by utilizing a data-based, scientific sales style. Having brought long-term, stable growth to the Company, it ranks with our long-established customer base as a competitive strength unequalled among our peers even today.

Something else we regard as a major advantage is **accumulated business⁵** such as office supply and maintenance agreement services. This type of business serves not only to boost our earnings base and ensure the stability of our operations, but also to continuously strengthen our relationships with customers. Accumulated business has grown to account for ¥300 billion in net sales, which equates to 40% of our non-consolidated annual net sales, and we anticipate even further growth.

We are now implementing **Otsuka Strategy II⁶**, which is focused on forging new relationships with customers. We are supplementing our face-to-face support (by sales and technical personnel) with alternative options such as online consultations, a call center, and AI. This is further boosting our capacity to propose solutions to customer issues and enhancing the one-stop solutions and one-stop support that have traditionally been our strengths.

Emerging challenges on the path to a new stage of growth

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In the fiscal year ended December 31, 2021, we recovered from the previous year's decline in both sales and profits (the first such decline in 11 years) to achieve sales and profit growth. Nonetheless, I regret that both revenue and income fell short of the levels planned, causing concern for our stakeholders.

The first six months of the year delivered stronger sales growth than in the previous year, but in the following six months, sales remained down year-on-year, resulting in a marked difference between the two halves. Although we responded to the higher COVID infection rates from July onward by shifting to mostly online sales, our sales activities were undeniably compromised. In particular, fewer opportunities for face-to-face contact reduced the number of companies individual salespeople could negotiate with each day. When negotiating online, the objectives are clear, and once a yes or no answer is reached, the discussion is over. At OTSUKA CORPORATION, however, our strength has always been our salespeople's ability to use the general conversation during customer visits to generate additional opportunities for

recommending products. Unfortunately, it seems to me that online negotiations have prevented us from making the most of this strength, and our salespeople were unable to get close to customers and work out their essential needs as the basis for making proposals.

In recent years, we had reached the point where we were gradually starting to see results from our initiatives to maintain and increase customer contacts via multiple channels, and to facilitate sales activities using AI by implementing Otsuka Strategy II. However, the challenges of conducting face-to-face sales activities during the COVID pandemic caused a levelling-off in performance indicators that had previously increased steadily, such as the number of products purchased per (copier) customer and the number of negotiations using AI. It also became clear that our goals as a company had not been firmly instilled among all salespeople.

Transformation of our business environment has placed OTSUKA CORPORATION in a situation where we can no longer rely solely on the sales methods and style handed down in our corporate DNA throughout our history. We are unlikely



to achieve further growth if we depend on our past experience alone. Although we face challenging circumstances, we must properly grasp the changes in our business environment,

redouble our efforts to instill the Otsuka Strategy II concept throughout the Company, and expedite the strategy's implementation.

Get close to our customers and grow together through DX (digital transformation) and all our products

At OTSUKA CORPORATION we try out various combinations of our products in-house and use the know-how thus gained to offer a large number of customers solutions that only we can provide. However, in 2021, only a third of around **287,000 companies**⁷ with which we did business purchased multiple products from us. Nonetheless, the fact that the remaining two-thirds purchased only one product does mean there remains ample room for growth derived from multi-product proposals. Particularly if we are to establish ourselves on a reliable growth trajectory from now on, we need to do more to speed up and improve our provision of solution-based proposals that bring our full capabilities into play.

Accordingly, we intend to transform our sales style from a product-first approach focused on single products and pricing to an ideas-first approach focused on problem-solving. I believe that our salespeople need to get close to customers and solve small problems for them to open up sales negotiations,

then build a relationship that makes it easy for the customer to ask for assistance with subsequent problems. This will help to increase the number of products purchased per customer, and repetition of this process will ultimately lead to solution-based proposals encompassing all the products an office requires.

In order to instill this new sales style among our salespeople, we need to change our **style of management**⁸ as well. We are therefore shifting to a management style that can offer appropriate counselling, advice, and coaching to individual salespeople, given that their previous successes are no longer relevant in the current environment.

We are also forging a new course for our sales activities as a whole by moving away from our salespeople simply selling the things they want to sell, and instead adopting a new **evaluation system**⁹ that will encourage them to solve a wide range of customer problems. At the same time, we are taking steps to create workplaces that offer job satisfaction, including

raising **the labor share of income**,¹⁰ as we work to establish a setup that will enable our employees to get close to customers.

As one aspect of Otsuka Strategy II, we will continue the series of initiatives we started a few years ago that **utilize AI**¹¹ to improve productivity and revitalize our organization. One example is sales process support using AI, such as recommendation of products and companies to visit, management of the negotiation process, and recommendation of post-installation follow-up. Other examples include the AI Assistant iPhone app, which serves as a personal assistant for sales personnel, and improvement of employees' well-being using "happiness sensors."

However, I believe that the key challenge from now on will be to ensure that our employees become more sophisticated

users of AI. The issue will be how they can avoid being used by AI, and instead become adept at using it for their own proposals. For instance, the ideal scenario would be that a salesperson who previously sold only copiers is prompted by the AI to notice a new opportunity, he or she then thinks it through, makes a creative proposal, and ends up selling multiple products instead. To enable this to happen, we are investing effort in **human resource development**¹² aimed at improving a range of employee attributes such as expertise, experience, and drive, in addition to AI-related skills. At the same time, I think it is essential to invest more in human resources by supporting employees' efforts at self-realization. This includes encouraging and subsidizing acquisition of qualifications related to AI and other aspects of IT, or business in general.

Aiming to enhance our corporate value by generating social value through sustainability-oriented business management

We took advantage of OTSUKA CORPORATION's 2001 listing on the First Section of the Tokyo Stock Exchange to reconsider our societal role, responsibilities, and raison d'être. In 2003, we announced our **Mission Statement**,¹³ which stated the goals we should aim for and the principles that would

guide us from day-to-day. In line with our Mission Statement, we have continuously pursued an array of measures to contribute to solving environmental, social, and governance (ESG) issues and achieving the Sustainable Development Goals (SDGs). In November 2021 we established the



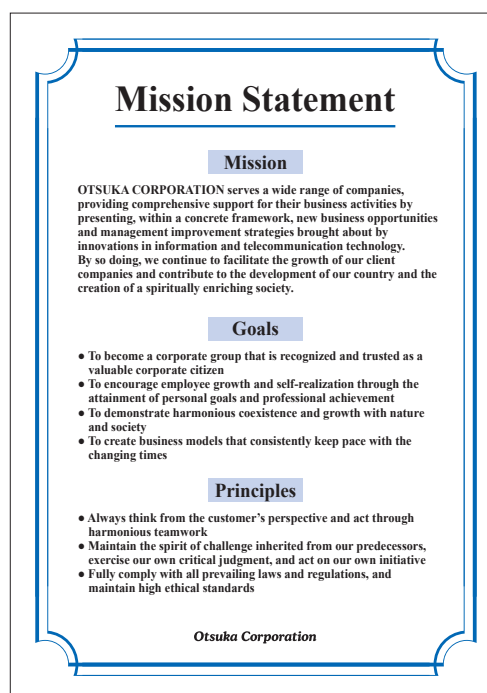
Sustainability Committee, which started discussing topics including identification of the Company's **materiality**,¹⁴ responses to environmental and social risks, and support for building a governance system.

On the environmental (E) front, the most recent ESG-related development was our declaration of support for the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures). From now on, identification of climate change-related risks and opportunities will form part of our corporate strategies as we seek to build a governance system capable of both implementation and innovation. In addition, we are simultaneously increasing corporate value and reducing environmental impact by selling more environmental solutions and products.

In terms of social issues (S), we are putting mechanisms in **place to manage human resources¹⁵ in such a way that the personal growth and active engagement of our employees lead to sustainable enhancement of our corporate value over the long term**. This involves investing more in human resource development, primarily by encouraging and subsidizing training and acquisition of qualifications, as well as reviewing and amending our salary structure and levels.

As far as governance (G) is concerned, we have three outside directors who contribute to lively discussions at the Board of Directors meetings. In terms of management decision-making, therefore, we believe that the Company's governance measures function effectively. Meanwhile, **diversity¹⁶** at the Company was improved this year with the appointment of our first-ever female Executive Officer. I look forward to a succession of female employees following in her

footsteps. In another governance-related development, we created the optional Nomination Committee and Compensation Committee in March 2022. The committees are advisory bodies to the Board of Directors and comprise mainly independent outside directors. The Nomination Committee and Compensation Committee will advise the Board of Directors on matters such as the election, dismissal, and remuneration of directors; and succession planning (including training of successors) whenever it is requested or delegated to do so by the Board.



To our stakeholders

The Japanese government's recent creation of a Digital Agency and new legislation to encourage the use of electronic documentation mean that small- and medium-sized enterprises now have no choice but to embrace the use of IT and paperless operations. At OTSUKA CORPORATION, 80% of our customers are small- and medium-sized enterprises with annual sales of less than ¥1.0 billion; we regard it as our mission to solve the problems such companies face.

Our slogan for 2022 is "Get close to our customers and grow together through DX (digital transformation) and all our products." In line with this policy, we are aiming to assist our customers in pursuing digital transformation and grow alongside them. Your continued support will be invaluable to us as we do so.

10 P.52 : Creating job satisfaction (labor share) 11 P.15 P.53 : Utilization of AI 12 P.51 : Human resource development

13 P.01 : Mission Statement 14 P.41 : Sustainability Management 15 P.49 : Engagement 16 P.50 : Diversity & Inclusion

History of OTSUKA CORPORATION, evolving with the changing environment while dedicating itself to the “Pursuit of Customer Satisfaction” since its founding

The corporate philosophy that OTSUKA CORPORATION has treasured since its founding is “Pursuit of Customer Satisfaction.” OTSUKA CORPORATION has maintained its business style of providing a one-stop service for various consumables and maintenance of equipment needed in the office, in addition to sales of various equipment, since its founding.

The products and services OTSUKA CORPORATION handles are still expanding to meet the needs of our customers and the changing office environment. OTSUKA CORPORATION will continue to contribute to our customers' productivity improvement and cost reduction while getting close to them, and grow together with them.

► Change in net sales *from 1961 to 1999: non-consolidated; from 2000: consolidated

**OTSUKA CORPORATION,
engaging in copier business**

1961

**OTSUKA CORPORATION,
engaging in COF business**

Copier, Office computer, Facsimile

1970

**OTSUKA CORPORATION,
engaging in OA business**

Office Automation

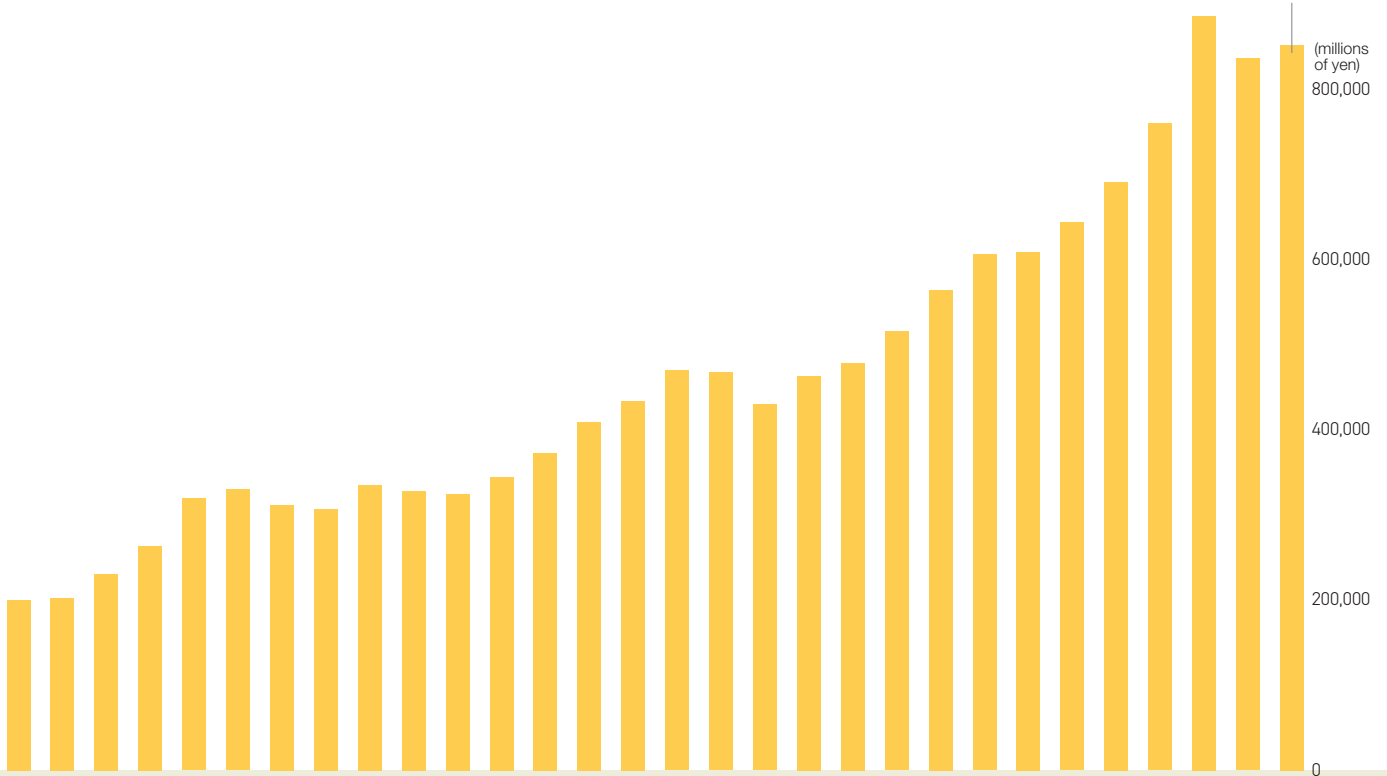
1980

1990

► History of strategy



2021
¥851.8 billion



OTSUKA CORPORATION,
a company with technology
and proven track record

Energize Your Office with **IT**

2000

2010

2020

1993

Began an Otsuka
Strategy project

Commenced
full-scale operation
in 1998

Otsuka Strategy
Productivity improvement
and financial structure
strengthening

P.11

SPR Uniquely developed
for CRM & SFA

Introduced in 2001 |
Commenced full-scale operation in 2003
Introduction of scientific sales style

S-SPR Management of behaviors
of technical personnel and
business process reform
From 2009

In operation sequentially

10

**Otsuka
Strategy II**

Forging new
relationships with
customers

P.14

From 1995

- Internet business

From 1996

- Security management business

From 1999

- "tanomail"

From 2000

- Listed on the First Section of the Tokyo Stock Exchange

From 2001

- Yuji Otsuka assumed the position of President and Chief Executive Officer (current position)

From 2006

- Launched "tayoreru" brand

From 2008

- LED

From 2017

- Initiated teleworking operations at the Company

From 2020

- Support customers' teleworking
- Integrated DX package

From 2021

- Obtained DX certification
- Commemorative project for the 60th anniversary

P.38

From 2022

- Transitioned to the Prime Market

New-Web Strategy (integration of face-to-face business and web business)

UNIX > Network equipment > Security management > iPhone/iPad > LED > RPA > AI/IoT > ...

"tanomail" > Data center > Strengthening web business > Collaboration with cloud services > Support for teleworking > ...



Otsuka Strategy

Our Otsuka Strategy **launched in 1993** was designed to lay the foundations for our future growth by addressing the Company's structural issues. Once it got **fully under way in 1998**, our business was transformed to become fundamentally data-driven, and our productivity improved exponentially. At the same time, our business model changed dramatically. Improvements in our checks and balances, as well as our financial standing, enabled us to list on the Tokyo Stock Exchange in 2000, and even now these elements remain fundamental to our company. In fact, the Otsuka Strategy project OTSUKA CORPORATION took on some 30 years ago was no different from the digital transformation that many Japanese companies are grappling with at the moment.

Background to the Otsuka Strategy

- ▶ Productivity had decreased due to expansion of product lineup and company size
- ▶ Radical reform was required to improve productivity and reinforce checks and balances

In **1992**, OTSUKA CORPORATION's operating sites including its branches and sales departments were organized to function independently. These independent operating sites were given responsibility for the majority of operational tasks including issuing proposals and estimates, signing contracts, taking orders, recording sales, invoicing, processing payments, inventory management, purchasing, and managing customer data. The advantage of this was that **each site** functioned as a **"mini-OTSUKA,"** but by 1992 the issues affecting the system as a result of growth in our product lineup and company size had become starkly apparent. In terms of inventory management, for instance, the availability of stock at each site enabled quick delivery, but duplication across multiple sites tended to lead to surplus inventory across the Company as a whole.

Likewise, the speedy decision-making that resulted from the latitude granted to individual sites was a strength, but vulnerabilities and inefficiencies in terms of checks and

balances had become apparent. What was more, the Company regarded a larger workforce as a key growth driver, and had funded this by making extensive use of loans from external entities. As a consequence, the size of the Company had indeed grown, but expenses such as personnel costs and interest repayments were persistently driving down profits.

OTSUKA CORPORATION's strengths and issues in 1992

	Strengths	Issues
Inventory	Quick delivery (stock at each site)	Surplus inventory (duplication across sites)
Checks and balances	Speedy decision-making (latitude granted to individual sites)	Vulnerabilities & inefficiencies (everything left up to individual sites)
Workforce	Larger workforce drives growth	Higher personnel costs
Funding	Extensive use of external loans	Deterioration in financial position

Reference: The Company's non-consolidated financial results for 1992 amounted to ¥200.2 billion in net sales, ¥0.5 billion in ordinary profit, ¥88.7 billion in interest-bearing debt, and ¥5.6 billion in interest expenses. The Company hired around 800 new graduates (compared with around 350 new graduates in 2022).

Transition to a form of business operation appropriate for a new era by avoiding wholesale renunciation of the past and making the most of the culture and resources OTSUKA CORPORATION has cultivated since its founding—especially our employees and customers

Inspired by this aspiration, we launched the Otsuka Strategy project, spearheaded by our current President & Chief Executive Officer, Yuji Otsuka.

The two pillars of the Otsuka Strategy

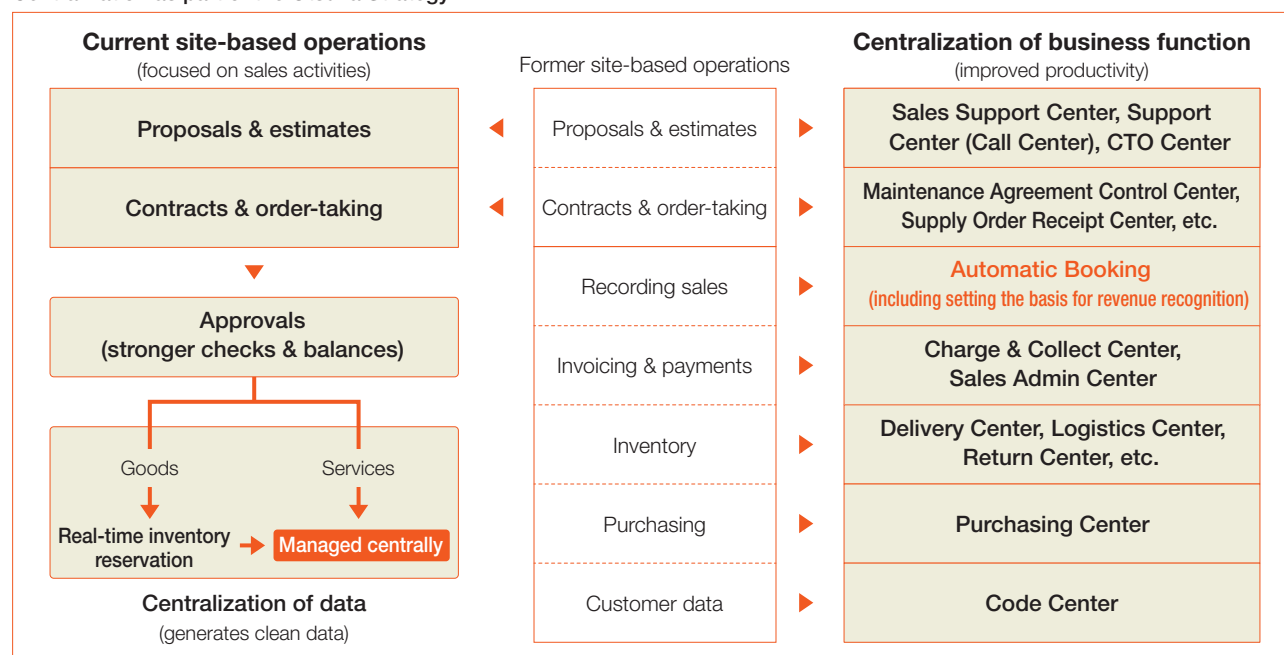
- ▶ Simultaneously improved productivity and reinforced checks and balances by centralizing tasks and automatic booking of sales upon shipment
- ▶ Hastened decision-making by cleaning up data

Our Otsuka Strategy project had two main pillars: (1) centralization of operational tasks and (2) automatic booking of sales upon shipment. **Centralization** entailed reorganizing the operational tasks that had been handled separately at each individual site and setting up new units in the head office to take sole responsibility for these tasks. It was a move designed to kill four birds with one stone by transitioning to an integrated ERP (enterprise resource planning) system that would (1) allow operating sites to focus on the sales activities that were their essential role, (2) improve productivity

throughout the Company by enabling tasks common to all sites to be handled centrally, (3) reinforce checks and balances, and (4) generate cleaner upstream data. However, the proposal met with fierce backlash from operating sites, given that it could be regarded as compromising their own authority. Nonetheless, the Company took steps to gain a full picture of the existing situation by conducting thorough investigations at each operating site, and centralization of all the various tasks eventually started in 1995.

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Centralization as part of the Otsuka Strategy





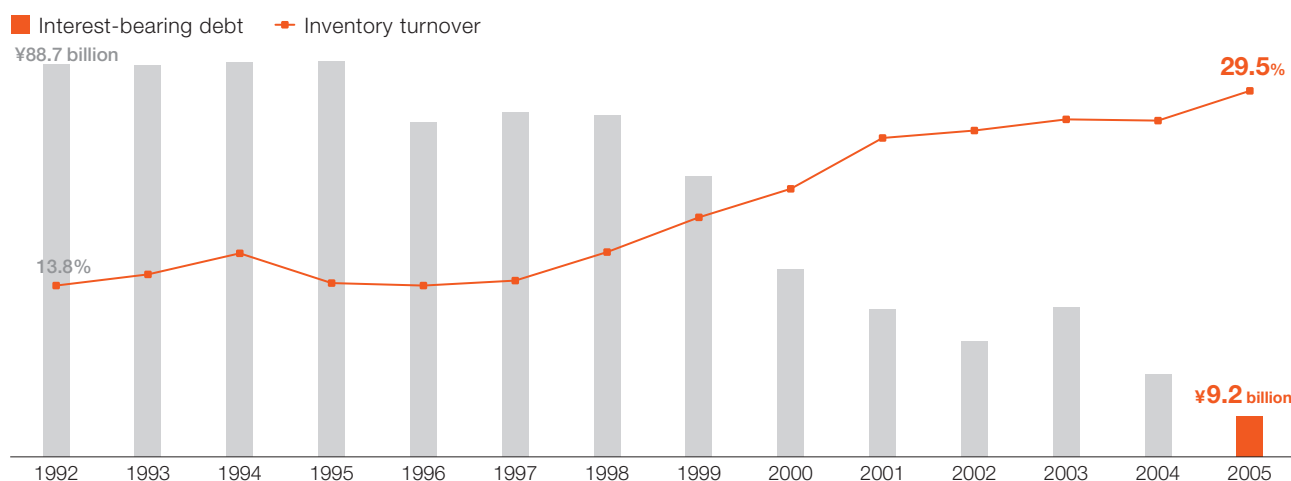
The first head office unit to be established was the Delivery Center, which achieved positive results such as more efficient deliveries and increased inventory turnover thanks to reduced duplication across sites or dead stock; these improvements in turn brought down interest-bearing debt (see figure: Inventory turnover and interest-bearing debt). Operating sites that no longer managed their own inventory benefited from reduced need for space, and could dispense with maintaining a store at street-level. They could instead set up stores on the second floor or above, where rents are relatively cheap, moving to a more convenient location for the same rent. Thus, centralized inventory management offered the added advantage of leading directly to reduced costs and increased convenience.

The Otsuka Strategy's other main pillar, **automatic booking of sales upon shipment**, was also implemented in conjunction with the launch of the Delivery Center. Previously, individual sites had exercised their own discretion in recording data relating to contracts, orders received, and sales, but instead the Company developed a new operational

setup. This enabled data to be processed according to standardized criteria, while inventory could be reserved in real time via a network. Operating sites were immediately notified of delivery dates, maintaining the tradition of quick delivery that had been a competitive advantage for the Company. As the head office units such as the Delivery Center, the Logistics Center, and the Returns Center started to dispatch products, the core system was equipped with approval capability (to control automatic booking). This enabled the recording of sales upon shipment, thereby eliminating arbitrariness and reinforcing checks and balances.

As a result, cleaner data was provided by operating sites. The generation of **clean data** upstream obviated the need to input the same data twice, and the centers in the head office could process everything together, from shipment and delivery instructions and automatic booking of sales to invoicing and collection of accounts receivable. Operational productivity improved dramatically, while the head office also benefited from access to accurate, timely information.

Inventory turnover and interest-bearing debt (non-consolidated)



Our **SPR** system and the transition to a scientific sales style

It was our SPR (Sales Process Re-engineering) system that utilized this clean data and developed it into a strategic sales tool (see P.22). The **SPR** system was linked to the Company's core system; it used information obtained from OTSUKA CORPORATION's customer base as a resource, enabling a scientific approach to sales. From the time the SPR system was launched, we continuously built up know-how relating to its use, along with a database of all customer-related information, including records of negotiations, assistance provided, and sales transactions. These resources would subsequently enable us to use AI for managing big data as part of Otsuka Strategy II.

Otsuka Strategy II



Otsuka Strategy
(P.11)

Background to Otsuka Strategy II

The catalyst for the launch of Otsuka Strategy II was a hike in our copier paper price in 2007 resulting from a steep rise in the price of crude oil.

At the time, OTSUKA CORPORATION had around 160,000 “tanomail” customers. We managed to visit only 50,000 of these companies in person to explain the price hike, and were forced to notify the remaining companies by postcard. We had been unable to do something we thought we could do: Even when our sales and technical personnel (referred to below as “Real”) worked at full capacity, there were still many customers they did not manage to visit. As a consequence, we realized, we were losing customers we had sold products to previously without even being aware of it.

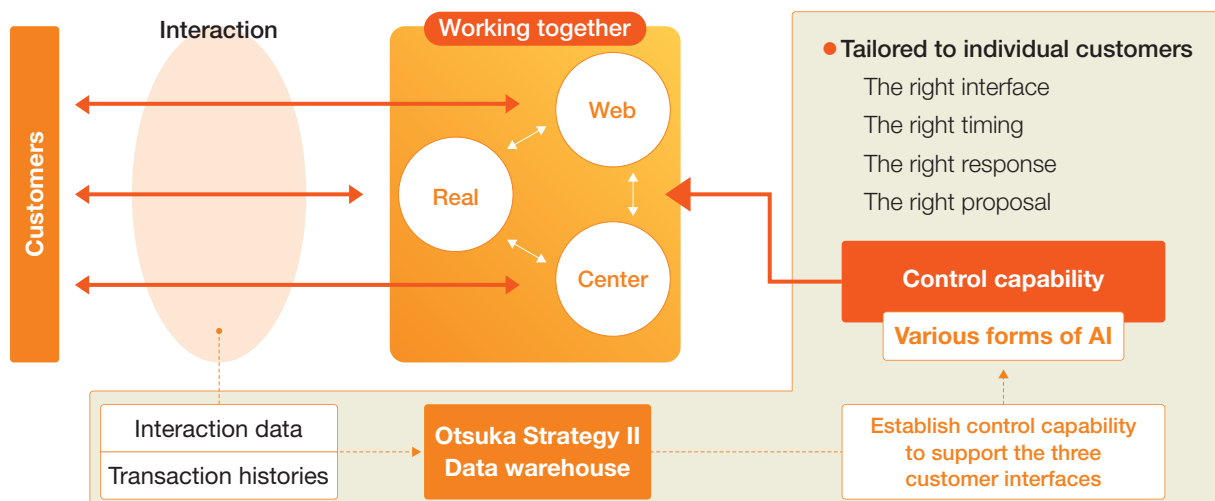
Progressing from a one-time transaction to a lifelong customer
We want all our customers to feel glad that they did business with
OTSUKA CORPORATION

Concept: Forging new relationships with customers

As our customers increase in number, there is a limit to how far we can respond simply by augmenting the number of Real. If we are to maintain the Company’s growth, while ensuring that every single customer that has dealings with us feels glad they did business with OTSUKA CORPORATION, we need to make a major transition to an entirely different operational setup. I want us to establish a new paradigm that ensures our operational setup and capabilities at the corporate level keep us constantly connected to our customers, even if Real are unable to visit in person. I now feel that, in order to achieve this, we need to put three channels in place—Real, Web, and Center—and have them work in unison to create an OTSUKA-wide framework for maintaining contact with customers.

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Three interfaces work together to enable the Company as a whole to get close to customers, forging new relationships with them





Get close to our customers through three interfaces

Circumstances vary from one customer to another. Even for the same customer, sometimes it is important to interact Real, while at other times Center is the most appropriate option. Or sometimes it may be best for customers to solve their own problems with the help of Web. In order to meet such variation in needs, the three channels should ideally not handle customer requests individually, but should instead present a united front to offer a combined response according to each customer's circumstances. Now we have established the concept of taking a company-wide approach to getting close to customers in order to forge new relationships with them, Otsuka Strategy II will get under way.

For the Real, Web, and Center interfaces to get close to customers in unison, it is essential for the three to work together. In 2015, therefore, we set up a mechanism to exercise the overall control necessary to bring this about. A single database is used to store all customer interaction data, such as business negotiation records and details of inquiries, as well as transaction histories; AI software then learns from

this database to come up with theories regarding customer problems. Our current aim is to establish the capability to get close to customers at any time by approaching them via the channel that can best solve their problems.

Our original Otsuka Strategy was driven by the urgent imperative to turn the Company around; it dispensed with the Company's own established rules to construct an entirely new foundation for the future. For Otsuka Strategy II, on the other hand, the foundation constructed during the original Otsuka Strategy was already in place. That means that certain existing elements can be retained and utilized, but the need to build on top of an existing base and ensure that the old and the new work together makes this current Otsuka Strategy extremely challenging to put into practice. Nonetheless, we continue to press ahead with Otsuka Strategy II, having started with whatever could be done straight away, and making adjustments as we go along.

Otsuka Strategy II: Creating an OTSUKA-wide framework

Real

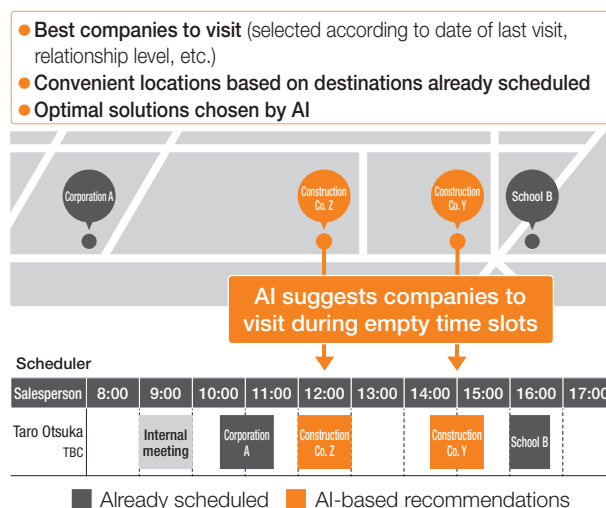
AI-based support for Real sales

AI Assist

Our efforts to incorporate suggestions obtained from AI learning into Real sales activities are ongoing. For instance, the sales process can be broadly divided into four phases: (1) identification of a company to visit, (2) initial approach to receipt of an order, (3) installation of product(s) to fulfillment of all the customer's requirements, and (4) building a longer-term relationship. For the first of these phases, AI can automatically input the best companies to visit in a salesperson's schedule. The AI recommends an optimal solution for the customer in question, free of any bias toward products the individual salesperson is particularly familiar with. It is up to the salesperson to decide whether to actually visit the suggested company. We are now testing various means of enabling salespeople to interpret and make use of the AI's suggestions without simply being used by the AI.

We are also currently working on improving the AI's accuracy by providing it with feedback on the results of negotiations so that both the salesperson and the AI can engage in a PDCA (plan-do-check-act) cycle of learning.

Meanwhile, we are using AI to support other phases of the sales process as well: We have started small-scale and pilot trials, being careful to ensure compatibility with our operations as a whole.



Web

OTSUKA CORPORATION's Web presence

Customer Personalized Pages

Customer Personalized Pages were created to provide customer support via the internet as a means of addressing our inability to visit all customers in person. These accounts are intended to be online contact points enabling us to support and build relationships with customers—in particular the 80% that are small- and medium-sized enterprises. In other words, the customer accounts represent OTSUKA CORPORATION's Web presence. We issued "OTSUKA ID" to individual users in customer companies, and have been working to make the accounts more convenient to use. In July 2021, for example, we updated the website, customizing home pages for specific users.

In 2018, 18 months after the full-scale launch of the online account service, we conducted a major survey of all customers with an OTSUKA ID (numbering around 50,000 at the time). This yielded valuable insights including information on the types of customers using the accounts, and when and how they were using them. By the end of December 2021, the number

of individuals with an OTSUKA ID had climbed to around 228,000. We will continue making improvements as we endeavor to create a website that gets close to customers.

Please see our website for details regarding Customer Personalized Pages (Japanese only) ➡



Center

Seeking to create and sustain relationships with a large number of customers

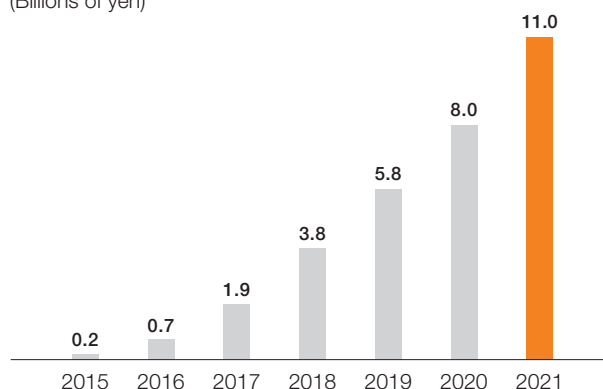
The Inside Business Center

In 2014 we established the new Inside Business Center (IBC) to coordinate with our Real and Web support services and help with sales, at the same time seeking to create and sustain relationships with a large number of customers. IBC started by conducting outbound¹ marketing focused on "tanomail" products. We subsequently included a contact phone number for the IBC on the Company's products and solutions webpage, enabling the IBC to also offer inbound² support by responding to inquiries received from customers. We expanded the scope of the IBC's sales activities to increase the number of products the IBC could sell on its own ("Products sold by the IBC"), such as IT services other than "tanomail" and connection services. During 2020, when the spread of COVID-19 placed constraints on face-to-face sales activities, the IBC made a valuable contribution by supporting customers with the introduction of teleworking.

1. "Outbound" refers to telemarketing via phone calls from a call center to customers.
2. "Inbound" refers to a call center's handling of calls received from customers.

Sales of products sold by the IBC

(Billions of yen)



Energize Your Office with



One-stop solutions & one-stop support

OTSUKA CORPORATION continues to expand its business domains by promoting “multi-vendor operations,” in which we handle products from many vendors without being bound to specific manufacturers, and “multi-field operations,” in which we provide a wide range of products and services from office supplies to IT equipment and IT services in general.

We deliver values provided by our approximately 2,400 business partners by combining them into a solution optimal for each customer, thereby solving our customers’ problems through a single point of contact.

From system implementation

System Integration Business

We realize information systems that support productivity improvement and cost reduction for our customers by offering optimal solutions that combine networks, servers, PCs, multifunctional devices, software, etc. selected without being bound to specific manufacturers.

One-stop solutions & one-stop support



Consulting

Analysis of issues and business operations



Software systems

Planning, design, and development



Information and communication network

Communication lines and infrastructure



Security management

Information leakage and BCP



Hardware

Implementation and setup

Social capital



Partners

Approximately
2,400 companies

(as of December 2021)

P.19-20

Human capital



Number of full-time employees (consolidated)

9,171

(as of December 2021)

P.21

Intellectual capital



Knowledge, know-how, and mechanism to utilize customer information

P.22

We provide total solutions to challenges facing our customers in the form of “one-stop solutions” and “one-stop support.”



Service and Support Business

We offer a full range of services to support every stage and aspect of business, such as mail-order of office supplies, troubleshooting after implementation of information systems, operation and management, and information systems diagnoses.

Service offered by OTSUKA CORPORATION



“tanomail”

Office supplies and stationery
Daily supplies and PC peripheral equipment
Furniture and nursing-care products

たよれ-る^{*}

“tayoreru”

Hardware and software maintenance
Telephone support
Online support
Web services

To post-implementation support

Contributing to productivity improvement and cost reduction for our customers

OTSUKA CORPORATION
supports the entire office
of our customers

From single-product transactions to multi-products transactions

Building a lifelong relationship with customers, starting from a single transaction

18

Business capital



One of the largest technical contact centers in Japan
logistics network to deliver what customers need

P.23

Financial capital



Equity Equity ratio
¥298.7 billion 61.4%

(as of December 2021)

P.24-26

Natural capital



Initiatives to mitigate climate change through our business activities

P.44

Social capital



Customers

Approximately
287,000 companies
(as of December 2021)

P.19-20

* たよれ-る

A general term for service and support programs that provide comprehensive support for various corporate operations, including general affairs, human resources, accounting, and information system operation, as well as utilization of IT.

Capital that OTSUKA CORPORATION Has Built Up as Its Strength

Social capital

Partners

Why we value them so much



- OTSUKA CORPORATION has formed alliances with approximately 2,400 partners, both domestic and overseas, ranging from large corporations to venture companies.
- We receive supplies of superior products, services, and technologies of various fields, and by combining them, we propose solutions that only OTSUKA CORPORATION can provide.

Partners

Approximately
2,400
companies

Domestic and overseas
manufacturers
Large corporations and
venture companies

IT

connects our partners

Propose an
based on our
of using the

In-house use

OTSUKA

Ecosystem that provides diverse products and services

- Accumulate business knowledge and technologies to meet customer needs
- Establish a stable, long-term sustainable, and flexible supply system through good relationships with many partners

Provide marketing functions

Share customers' potential needs, and
support new product development

Provide marketing functions

OTSUKA CORPORATION serves as a sales agent for our partners. To connect many partners with many customers and support the delivery of value; that is OTSUKA CORPORATION's raison d'être. We have a proven track record of doing business with approximately 287,000 customers annually. The fact that our partners are going to start doing business with us means that we have the chance to start doing business with 287,000 customers. For partners, it is more efficient working with us than building up their own marketing function and selling directly to domestic customers of all sizes by themselves. It is also an effective way to utilize social capital.

OTSUKA CORPORATION and its partners create and offer novel value to customers by sharing information on the challenges facing customers and together exploring ways to solve those challenges. Sharing customers' potential needs also leads to the development of new products by our partners.

Thus, OTSUKA CORPORATION is building win-win relationships with its partners by providing them with marketing functions.

Awards in 2021 (not exhaustive)

Partner	Details of awards
Cybozu, Inc.	Partner of The Year (14 consecutive years)
Trend Micro Incorporated.	Awarded in The Best Partner category (18 consecutive years)
Hitachi, Ltd.	HITACHI Business Partner Award 2021
Autodesk	Highest Total ACV for Industry Collections
Fortinet	Regional Partner of the Year Award
SOLIDWORKS	World's No.1 transaction value for SOLIDWORKS (8 consecutive years)
ZVC Japan (Zoom)	SMB Market Partner of the Year

*Listed in the order of the Japanese syllabary.

platformer

and customers

optimal solution
own experience
products/services

Know-how

CORPORATION

Customers

Approximately
287,000
companies

80% of our
customers have
annual sales of less
than ¥1.0 billion

A win-win, long-term sustainable customer base

- Provide the right solutions according to customer growth
- Build a relationship of coexistence and co-prosperity based on trust created through long-term sustainable business

Productivity improvement and cost reduction,
so customers can focus on their main business

Provide purchasing functions
and support for the entire office

Social capital

Customers

Why we value them so much



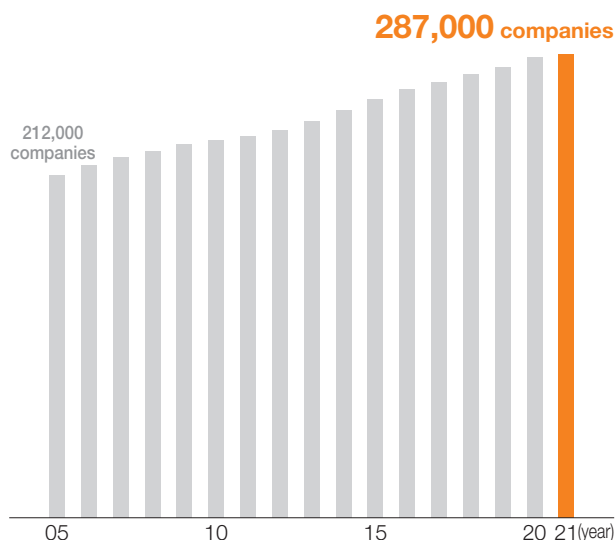
- Starting from just a single transaction, we eventually build a trusting relationship with our customers by listening to and solving the various problems they face.
- We are steadily expanding our customer base by continuing our business relations with each of our customers and enhancing customer satisfaction.

20

Changes in the number of customer companies with transactions during the year

Building a lifelong relationship with customers, starting from a single transaction

Our customer base is expanding steadily



Customer composition by annual sales (for the year ended December 31, 2021)

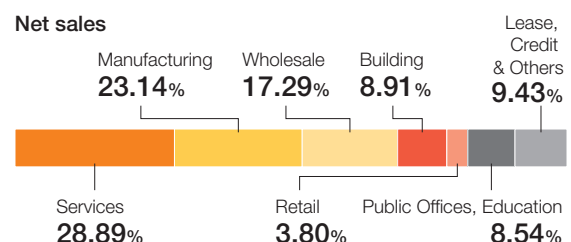
OTSUKA CORPORATION is supported by many customers, from small to large companies.

	Less than ¥1.0 billion	¥1.0 billion to less than ¥10 billion	¥10 billion and above
Percentage share in net sales	21.99%	28.14%	49.87%
Percentage share in number of customer companies	79.60%	16.42%	3.98%

Customer composition by industry (for the year ended December 31, 2021)

We share with society the know-how gained through business with our customers in a variety of industries.

Net sales



Human capital

Why we value them so much

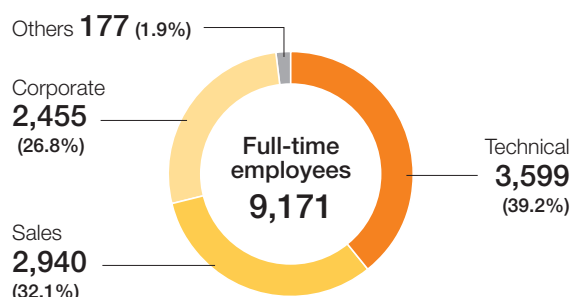


With the advent of the digital society, opportunities to use IT are expanding, and the business environment continues to change on a daily basis, including the ongoing search for new ways of working. Under such an environment, in order to offer solutions to various issues that differ from customer to customer, it is important to have “people” who can think and act on their own always from the customer’s point of view. OTSUKA CORPORATION believes that it is important to develop “people,” and continue to accumulate human capital.

Investment in human resources, the source of our growth

Number of full-time employees (consolidated)

The number of consolidated full-time employees as of December 31, 2021 was 9,171, an increase of 52 (+0.6%) compared to the previous year. Technical personnel makes up the largest portion of our workforce, working together with the sales personnel and corporate staff as one team to support customers. This is a style that has never changed since our founding.



Promotion of women's participation and advancement in the workplace P.50

In order to achieve a balance between “ease of working” and “job satisfaction” for female employees, OTSUKA CORPORATION works on various initiatives, including the enhancement of its systems and fostering an appropriate corporate culture. In 2019, we were awarded the highest rating (3 L-Stars) under the “Eruboshi” certification system by the Minister of Health, Labour and Welfare.

Eruboshi certification: a certification system based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace, which went into effect in April 2016.



Engagement P.49

OTSUKA CORPORATION has continued to grow with each employee experiencing a sense of fulfillment and accomplishment in their work. We aim at “employee growth = company growth = customer growth,” and continue to foster a corporate culture and work on various measures to achieve this goal.

Human resource development P.51

In order to put into practice one of the goals of OTSUKA CORPORATION’s Mission Statement, “To encourage employee growth and self-realization through the attainment of personal goals and professional achievement,” we provide employees with learning opportunities under the educational

theme of developing professional human resources rich in management mindset and human capacity.

	2020	2021
Training costs for full-time employees (non-consolidated)	¥530 million	¥590 million
Training costs per full-time employee	¥71,000	¥78,000

Training by Division	Employee training to acquire the expertise, skills, and know-how required in their Division			
Training by job category	Employee training to acquire the expertise and skills required for their job category	Sales	Technical	Corporate
Training by job level	Employee training to acquire knowledge and skills required of their job level and in accordance with their individual level of growth	OTSUKA Leader's College P.52	Officers, managers, mid-level employees, young employees, new hires, and prospective employees	
Company-wide training	Employee training to acquire essential knowledge as an employee of OTSUKA CORPORATION and a set of widely applicable skills	Mandatory training	Optional training	

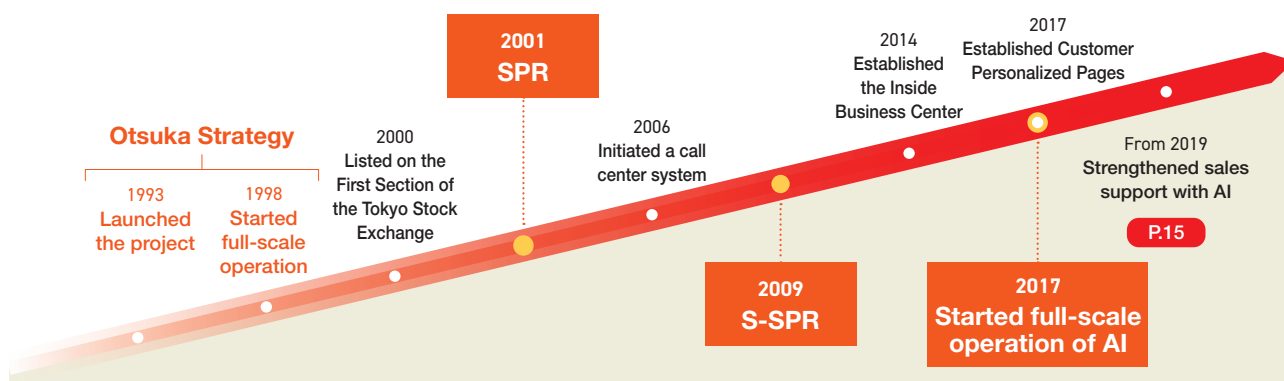
Intellectual capital

Why we value them so much



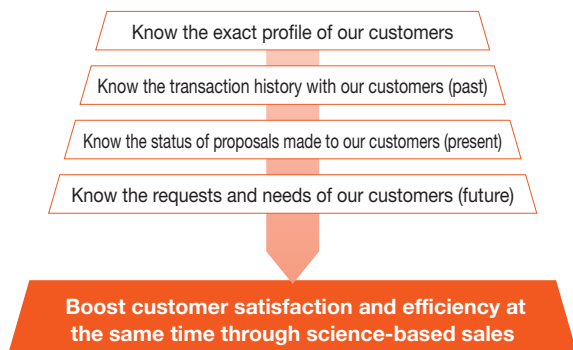
OTSUKA CORPORATION continues to accumulate customer information obtained from a wide variety of customer contacts. The cumulative amount of data since 2000 includes approximately 50 million business negotiations and more than 1.2 billion items sold. This vast amount of big data and knowledge, know-how, and mechanism to leverage them are the most important intellectual capital of OTSUKA CORPORATION. We have been using AI to analyze big data and support sales since 2019, and plan to expand the scope of its usage in the future.

Development of OTSUKA big data



■ SPR (Sales Process Re-engineering)

SPR is a system combining customer relationship management (CRM) and sales force automation (SFA), uniquely developed by OTSUKA CORPORATION. For more than 20 years since its introduction in 2001, we have digitized all our sales activities and accumulated the data in our SPR.



The number of business negotiations held per year increased from 470,000 in 2001 to 3.2 million in 2020 (cumulative total: approximately 50 million). We use AI to analyze this vast amount of data and enhance the proposals we make to help customers improve productivity and reduce costs.

■ S-SPR (SPR for technical personnel)

S-SPR is a system uniquely developed by OTSUKA CORPORATION to manage the behavior of technical personnel and reform operational processes (released in 2009). With its skills inventory, location information and other features, S-SPR can automatically optimize assignments in the event of failure to provide prompt and accurate service to customers.

■ Promotion of AI utilization

OTSUKA CORPORATION promotes the utilization of AI. Upon completing the initial demonstration tests in 2017, we embarked on an AI-based, full-scale operational reform. We have implemented various AI systems, and by combining their respective areas of expertise, we have established our own AI infrastructure, for which we obtained a business model patent in 2021 as “AI Service Utilization Support System.”

In 2019, we launched a project unit to further promote our AI business. While accumulating know-how gained through in-house implementation, we are conducting research on resale models that will be the optimal solution for our customers. In addition, we are also focusing on the development of AI-related personnel by encouraging them to obtain relevant qualifications (see p.51).

Business capital

Why we value them so much



In order to ensure that our customers can continue to safely and securely use the solutions we provide, post-implementation support is important. OTSUKA CORPORATION has built up a lot of business capital to solve the problems of our customers and deliver what they need promptly. In recent years, we have continued to further strengthen our business capital by utilizing the latest technologies including AI, in order to support our customers in all aspects of their business.

OTSUKA CORPORATION's support system to ensure that customers' operations are not interrupted

■ tayoreru Contact Center P.33

One of the largest technical contact centers in Japan that provides post-implementation operational support and information. Experts in each field respond quickly to our customer's problems via telephone or remote support. Collaboration with engineers at our nationwide offices enable provision of one-stop support, including on-site services.

Number of monthly support requests	Approximately 150,000
Number of support staff	Approximately 600
Number of support offices	280 nationwide
Number of engineers	Approximately 3,000

■ Online support

OTSUKA CORPORATION provides comprehensive support for products and services under contract, including important notices for customers, requests for repair and inquiries, and frequently asked questions.

■ On-site support

When on-site support is required to solve our customers' problems, a professional engineer from the nearest support office visits the customer to solve the problems.

■ tayoreru Management Service Center

A support headquarters that provides integrated monitoring of our customers' systems 24 hours a day, 365 days a year, and if something goes wrong, the Center provides the optimal solution for the customer.

■ Data center

OTSUKA CORPORATION has 6 data centers. They are equipped with state-of-the-art facilities and thorough security to protect our customers' valuable systems.

Deliver what customers need, when they need it (logistics network)

P.46 Case

In order to develop a community-based delivery system for "tanomail," OTSUKA CORPORATION works to improve customer convenience, including expanding the same-day delivery area through close cooperation of 6 distribution centers and 14 delivery centers nationwide (same-day or next-business day delivery is now available for orders placed by 11:00 a.m. on weekdays for in-stock items, excluding some areas and individuals).

In the Yokohama Distribution Center, which opened in October 2021, we have implemented two "AutoStore" robotic storage systems that can save space and manpower, expanding them to the largest scale in Japan. We continue to pursue smooth product delivery by further improving shipping speed and logistics productivity.



Financial capital

Why we value them so much



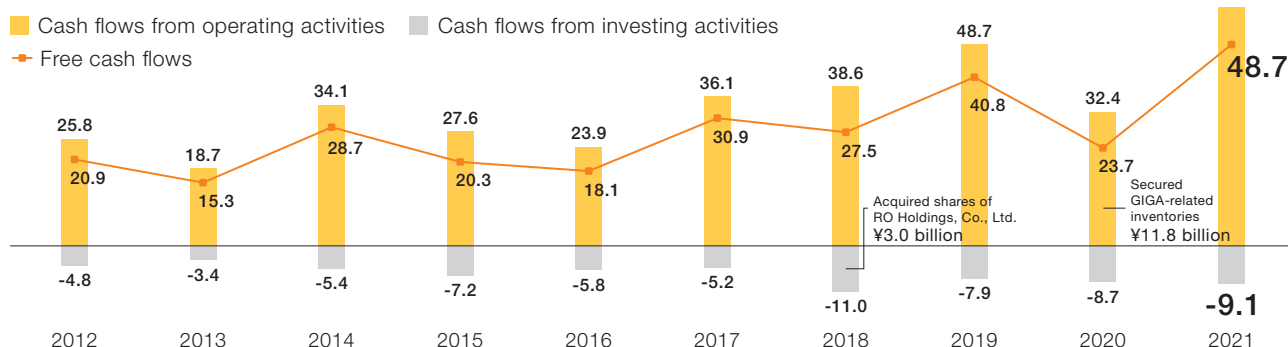
In order to demonstrate our mobility and agility even during a pandemic and other emergencies, it is important to maintain a sound financial base. OTSUKA CORPORATION has expanded its equity, using its steadily increasing cash flows from operating activities as a funding source. We are making steady progress in the enhancement of our financial position.

We will continue to optimize our financial and capital structure in the future, aiming to achieve a balance between returning profits to our shareholders who have supported us and achieving corporate growth.

Cash generating capability (cash flows)

In 2021, operating cash flows from business activities and free cash flows reached a record 57.8 billion yen and 48.7 billion yen, respectively. Using the operating cash flows as the main funding source, we are also gradually increasing our cash flows from investment for future growth.

(Billions of yen)



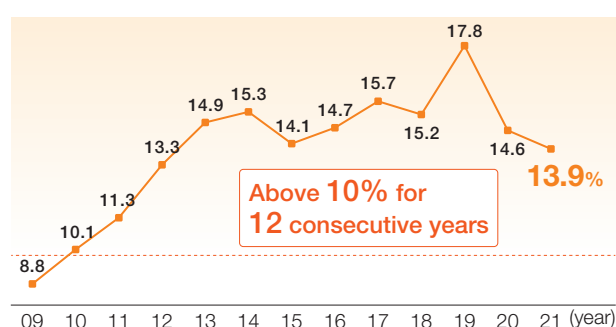
Safety (equity and equity ratio)

As of the end of 2021, equity was approximately 300 billion yen and equity ratio exceeded 60% for the first time. We are making steady progress in the enhancement of our financial position.

	Equity (billion yen)	Equity ratio
2017	212.8	56.0%
2018	229.7	56.5%
2019	259.3	56.2%
2020	277.3	58.8%
2021	298.7	61.4%

Profitability (ROE)

We have maintained a high level of ROE above 10% for 12 consecutive years since 2010. We will continue to strive to further increase ROE through steady profit growth in the future.



Message from the Officer in Charge

Respond to Trust by Promoting the Embodiment of Our Mission Statement

OTSUKA CORPORATION was listed on the First Section of the Tokyo Stock Exchange in 2000. At that time, equity ratio and current ratio were 30.5% and 77.1%, respectively, and net cash was in the red with an over-borrowing of 42.1 billion yen. Our financial base was not necessarily strong. However, we have transformed our business model through our Otsuka Strategy and have steadily and consistently utilized the funds entrusted to us by our shareholders through the listing of our shares. As a result, our financial base has continued to grow to the point where it can be considered as one of our strengths.

OTSUKA CORPORATION moved to the Prime Market this year, and we are committed to enhancing our corporate value and achieving sustainable growth by living up to the trust of all stakeholders, including shareholders, customers, partners, employees, and society, as in the past.



Managing Director & Executive
Operating Officer

Hironobu Saito

Toward Long-Term Sustainable Growth

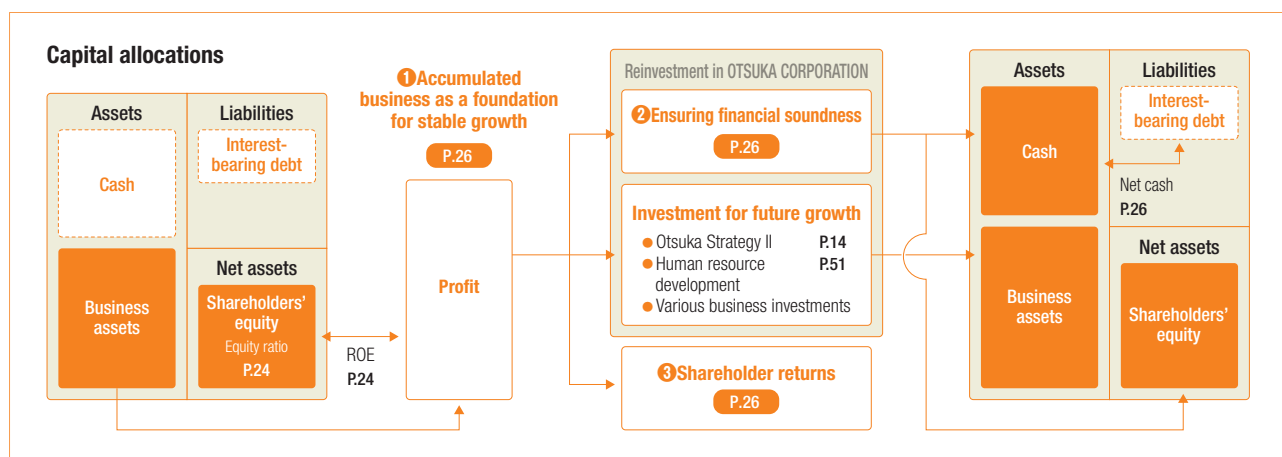
The value OTSUKA CORPORATION provides is to contribute to the productivity improvement and cost reduction of customers. In 2021, we had transactions with approximately 287,000 customers, and we are very grateful that our customer base have consistently continued to expand. There have been difficult times in the past, such as the global financial crisis and the COVID-19 pandemic. In order to demonstrate our agility even during such contingencies to continue to serve our customers, it is important to have a strong financial base.

In 2020, when the state of emergency was declared for the first time under the COVID-19 pandemic, OTSUKA CORPORATION supported many customers in their transition to teleworking (a total of approximately 40,000 companies). Most of these customers have continued to do business with us even after their transition was completed. We have continued

to grow our customer base in this way, by continuing business with each existing customer. This expanding customer base, together with the cash generated from stable, long-term business relationships, is the basis of our growth.

Our cash flows from operating activities were a record 57.8 billion yen in 2021. We intend to further enhance our corporate value and achieve long-term sustainable growth by appropriately reallocating the cash we generated to ensuring financial soundness, investment for future growth, and shareholder returns.

The figure below shows the capital allocations. Explanation will follow on (i) Accumulated business as a foundation for stable growth, (ii) Ensuring financial soundness, and (iii) Shareholder returns.

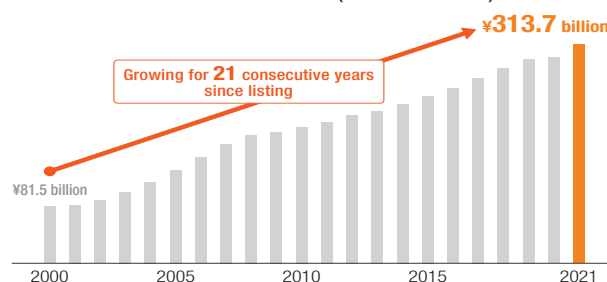


(i) Accumulated business as a foundation for stable growth

“tanomail” for delivering what customers need when they need it, and “tayoreru” for solving customers’ problems primarily through maintenance service. The accumulated business, which consists largely of these two businesses, is the foundation for OTSUKA CORPORATION’s stable growth. By building a relationship of trust with our customers through the accumulated business, which is characterized as the provision of continuous service, we can also provide a wider range of support by leveraging our multi-vendor & multi-field strengths. OTSUKA CORPORATION’s accumulated business has grown for 21 consecutive years since listing in 2000, by continuously supporting many customers. For “tanomail,” we opened a distribution center in Yokohama in 2021, the third distribution center in the Tokyo metropolitan area, to enable

more efficient delivery, while expanding the range of products we handle. For “tayoreru,” we have been working to develop menus that will improve convenience for our small- and medium-sized corporate customers. Support from the steadily growing accumulated business contributes to the establishment and maintenance of our sound financial base.

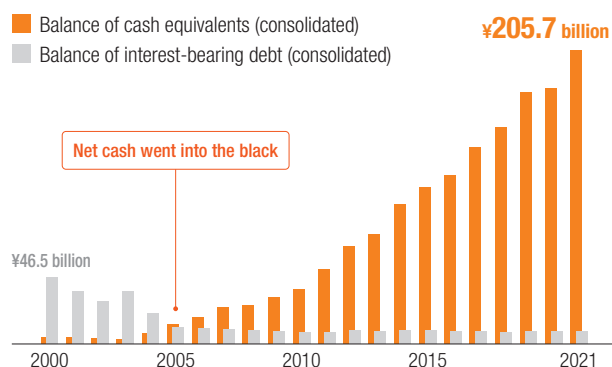
Net Sales of the Accumulated Business (Non-Consolidated)



(ii) Ensuring financial soundness

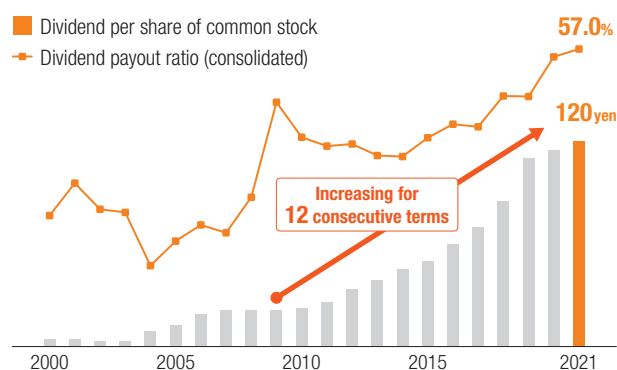
Cash equivalents of OTSUKA CORPORATION exceeded its interest-bearing debts in 2005, and we have operated virtually debt-free since then. Balance of cash equivalents as of December 31, 2021 was approximately 200 billion yen. Although it may appear to be at an ample level, it is important to secure sufficient funds on hand in order to remain agile and continue to support our customers even in an environment with increasing uncertainty. We are making steady progress in the enhancement of our financial position, with our current ratio being steadily above 200%. In 2022, we will increase investment for future growth, including the promotion of Otsuka Strategy II and reinforcement of human capital (review of labor share). In terms of capital efficiency, we will focus on

ROE, and our policy is to increase it through profit growth. We will strive to ensure our financial soundness while comprehensively taking into account factors such as growth capital and shareholder returns.



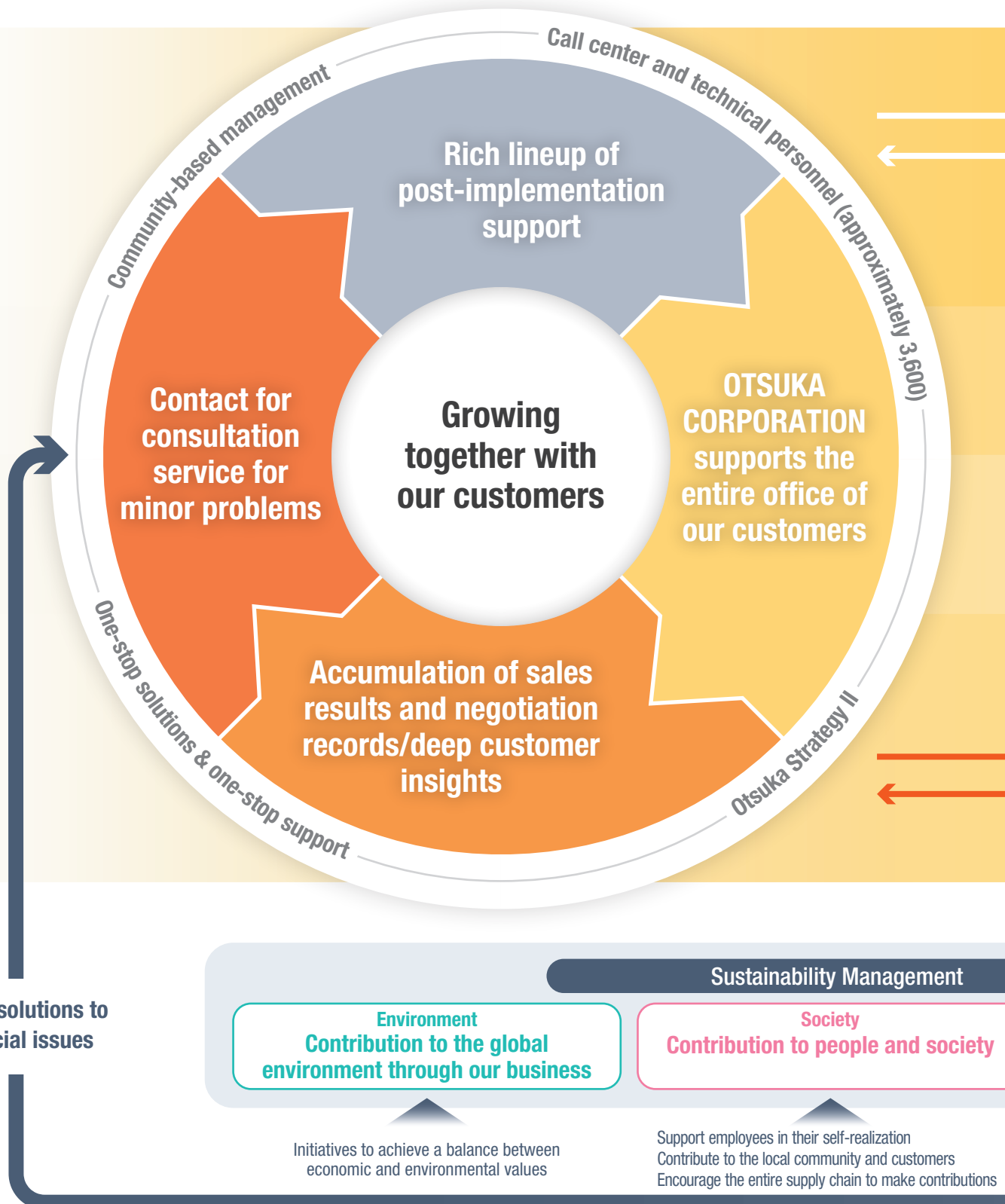
(iii) Shareholder returns

For the fiscal year 2021, we returned profits to shareholders, with a dividend per share of common stock of 120 yen (dividend payout ratio was 57.0%, including a 60th anniversary commemorative dividend of 5 yen). Our basic policy is to pay stable dividends in line with our business results, and we will consider comprehensively such factors as shareholder returns based on the dividend payout ratio, total dividend amount, dividend yield, and retained earnings.

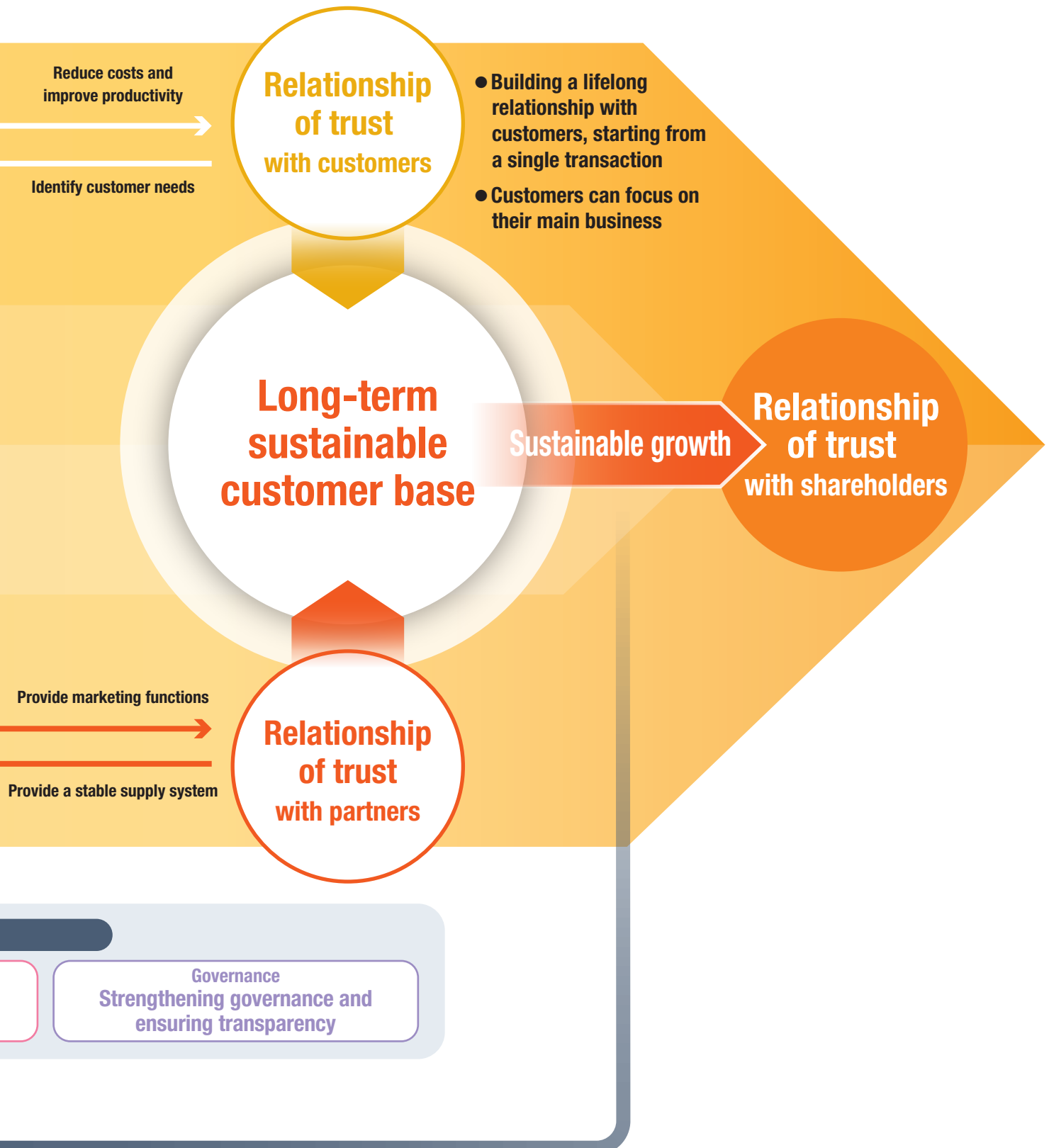


Embodiment of Our Mission Statement

OTSUKA CORPORATION's Value Creation Model



Support various companies and continue to contribute to the sustainable growth of society by practicing “Energize Your Office with IT”



Recognition of Business Environment

OTSUKA CORPORATION has continued to grow over the past 60 years by continuing to evolve with the changing environment.

We will continue to grow together with our customers by recognizing changes in the external environment and the risks and opportunities they pose to our business and leveraging the capital we have accumulated.

External environment megatrends			
Item		Details	Assumed period
	Changes in the world brought about by COVID-19	1 <ul style="list-style-type: none"> Restrictions on movement of people Ensuring social distancing 	Short- to medium-term
		2 <ul style="list-style-type: none"> Spread of new ways of working such as teleworking Economic and business activities shrink during periods of rapid spread of COVID-19 	Short-term
		3 <ul style="list-style-type: none"> Initiatives towards a new "with/post-COVID-19" society 	Short- to long-term
P	Revision of political/legal systems	4 <ul style="list-style-type: none"> Support for IT investment by the government such as tax incentive programs Backup for DX such as easing requirements of the Act concerning Preservation of Electronic Books 	Short- to medium-term
		5 <ul style="list-style-type: none"> Revision of corporate governance Strengthening of requirements for corporate governance such as the establishment of new market segments of the Tokyo Stock Exchange Enhancement of information disclosure 	Short- to medium-term
E	Changes in economic environment	6 <ul style="list-style-type: none"> Population outflow to metropolitan areas Various issues surrounding small and medium enterprises (such as shortage of successors, skill succession) 	Short- to medium-term
		7 <ul style="list-style-type: none"> Deterioration in product supply-demand balance due to shortage of semiconductors, etc. Soaring resource prices, etc. 	Short- to medium-term
		8 <ul style="list-style-type: none"> Risk to business continuity due to large-scale natural disasters, etc. 	Short- to medium-term
S	Diversification of society and changes in values	9 <ul style="list-style-type: none"> Changes in corporate valuation methods in response to environmental issues such as climate change 	Short- to long-term
		10 <ul style="list-style-type: none"> Diversification of society and changes in values as seen in work-life balance and diversity & inclusion 	Short- to long-term
		11 <ul style="list-style-type: none"> Decrease in working population due to increasingly aging society and declining birthrate Growing shortage of IT personnel 	Short- to long-term
T	Technological innovation	12 <ul style="list-style-type: none"> Utilization of new technologies such as AI, IoT, 5G, and drones in corporate activities 	Short- to medium-term
		13 <ul style="list-style-type: none"> Transition to a more environmentally friendly business scheme 	Short- to long-term
		14 <ul style="list-style-type: none"> Obsolescence of conventional technologies with the advent of the digital age 	Short- to medium-term

Impact on OTSUKA CORPORATION			
Risks	Opportunities	Responses	Measures
<ul style="list-style-type: none"> Constraints on face-to-face business negotiations in real sales activities 	<ul style="list-style-type: none"> Diversification of touch points with customers 	<ul style="list-style-type: none"> Enhance web and center functions 	Otsuka Strategy II P.14
<ul style="list-style-type: none"> Difficulty in providing the same level of services as before 	<ul style="list-style-type: none"> Review of the service provision process 	<ul style="list-style-type: none"> Achieve a balance between a swift shift to teleworking and increasing the value we offer 	tayoreru Contact Center P.33
<ul style="list-style-type: none"> Decrease in competitiveness due to adherence to conventional solutions 	<ul style="list-style-type: none"> Solutions to social issues by utilizing IT 	<ul style="list-style-type: none"> Provide new solutions combining various IT services 	Support for DX Promotion at Local Governments P.36
<ul style="list-style-type: none"> Shrinking copier-related businesses due to spread of paperless practices 	<ul style="list-style-type: none"> Increasing social momentum for DX 	<ul style="list-style-type: none"> Enhance support for transition to DX and digital documents 	Support for DX Promotion at Customers P.35
<ul style="list-style-type: none"> Loss of corporate value because of unsound corporate governance 	<ul style="list-style-type: none"> Enhancement of corporate governance 	<ul style="list-style-type: none"> Review institutional design 	Governance P.55 P.60
<ul style="list-style-type: none"> Decline of local economy Decline of small and medium enterprises 	<ul style="list-style-type: none"> Increase in opportunities to support customers who aim at cost reduction and productivity improvement 	<ul style="list-style-type: none"> Working alongside our customers through community-based operations 	Community-based Operations for Close Customer Support P.31
<ul style="list-style-type: none"> Loss of opportunity due to shortage of products, etc. 	<ul style="list-style-type: none"> Provision of alternative solutions 	<ul style="list-style-type: none"> Ecosystem supported by many partners 	Social capital P.19 P.20
<ul style="list-style-type: none"> Difficulty in continuing business (both ourselves and our customers) 	<ul style="list-style-type: none"> Providing BCP solutions based on the our own experience 	<ul style="list-style-type: none"> Reinforce our business continuity measures and broadly share know-how with society 	Commemorative Project for the 60th Anniversary P.38
<ul style="list-style-type: none"> Decrease in trust from society due to inability to respond 	<ul style="list-style-type: none"> Strengthening initiatives for environmental activities Provision of environmental solutions 	<ul style="list-style-type: none"> Express support for TCFD, SBT Utilize renewable energy 	Environment P.44 P.47
<ul style="list-style-type: none"> Outflow of excellent human resources due to inability to respond 	<ul style="list-style-type: none"> New insights gained from diversity 	<ul style="list-style-type: none"> Launch new initiatives to become more attractive OTSUKA CORPORATION 	D&I P.50 Creating job satisfaction P.52
<ul style="list-style-type: none"> Difficulty in securing human resources 	<ul style="list-style-type: none"> Strengthening competitiveness by securing/developing human resources 	<ul style="list-style-type: none"> Continuous productivity improvement 	Human resource development P.51 Productivity Improvement P.37
<ul style="list-style-type: none"> Decrease in productivity due to continued use of conventional technologies 	<ul style="list-style-type: none"> Analysis of our own big data utilizing new technologies 	<ul style="list-style-type: none"> Further strengthen scientific sales style 	Otsuka Strategy II P.14
<ul style="list-style-type: none"> Difficulty in continuing business due to inability to contribute to the reduction of environmental load 	<ul style="list-style-type: none"> Contribution to the reduction of environmental load through utilization of new technologies 	<ul style="list-style-type: none"> Achieve a balance between strengthening business activities and reducing environmental load 	Large-scale environmentally friendly distribution center P.46
<ul style="list-style-type: none"> Obsolescence of conventional technologies 	<ul style="list-style-type: none"> Reinforcement of human capital by retraining human resources 	<ul style="list-style-type: none"> Review company-wide training system 	Reskilling P.51

Measures for Value Creation

Contributing to solving customers' issues

Community-based Operations for close customer support



Working alongside our customers through community-based operations

One of the unique features of OTSUKA CORPORATION is its area-focused, high-density sales style. Since its founding, OTSUKA CORPORATION has built a community-based operational structure initially focusing on the Tokyo metropolitan area, and adopted the same approach when expanding into other areas. This structure, which we call the “Newspaper Strategy”^{*} by likening to newsagents, is the origin of our sales style. Our community-based operations enable us to rush to our customers immediately when something goes wrong.

We can also provide more efficient services by increasing customer density within the area.

創業時から地域密着を重視。エリア内の顧客密度を高める“新聞作戦”で
クイックデリバリー＆クイックサービスを実現



^{*} Newspaper Strategy: a strategy of community-based operations in which we deliver even a single ream of copy paper to our customers with the same mobility and flexibility of a paperboy delivering newspapers to subscribers in the area.

From 2016 -Returning to the starting point of community-based operations-

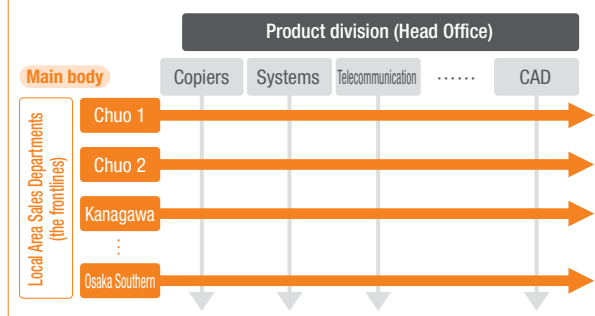
The Regional Sales Manager is like a “president” in charge of the area. He/she is responsible for contributing to the development of the local community.

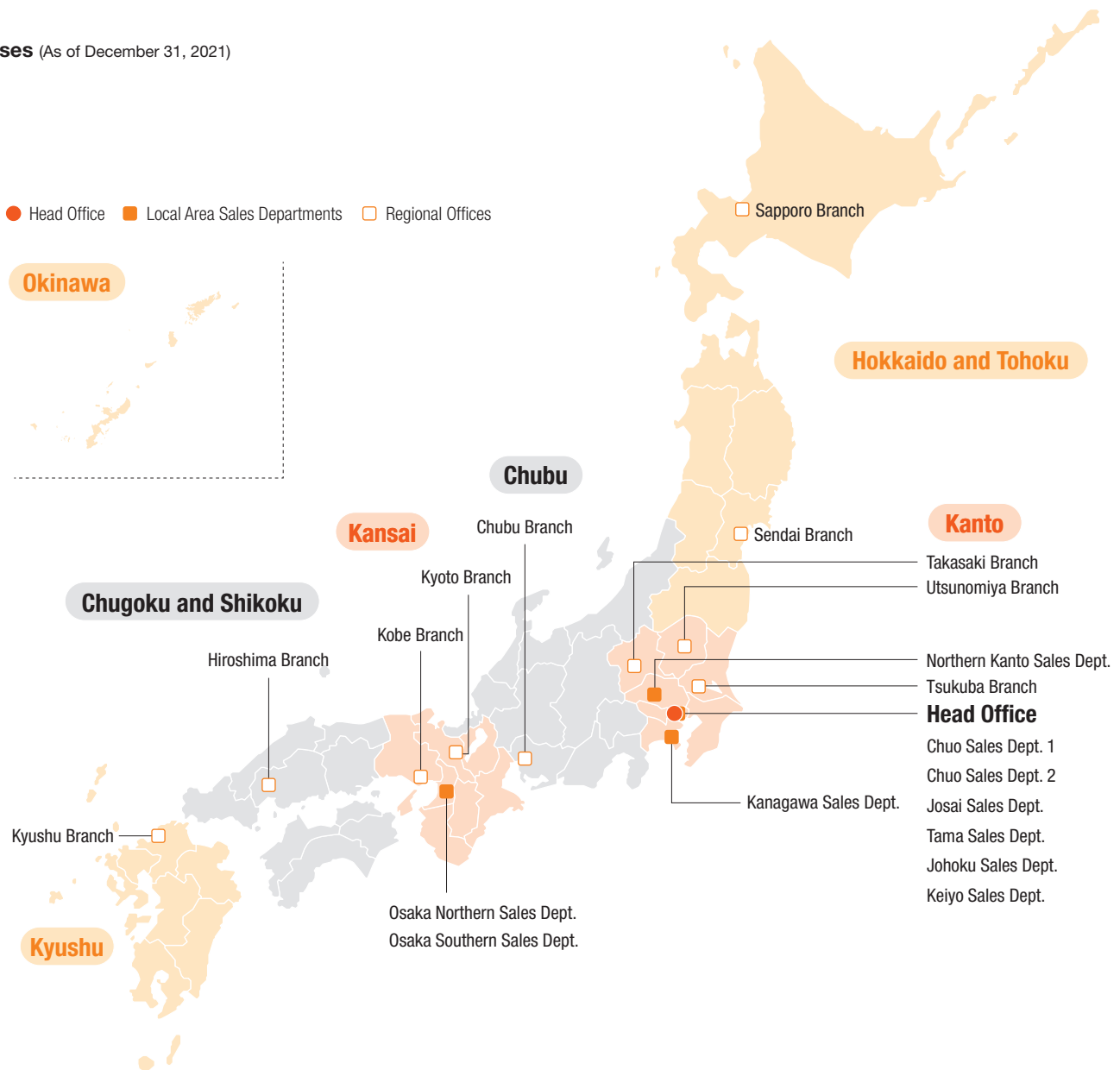
Community-based operation is all about working close alongside customers. OTSUKA CORPORATION has been able to expand its business domains and continue to grow by listening to our customers more closely and responding to their various needs. However, as the influence of the product division (Head Office) grew stronger with the expansion of products we handle, our sales activities have become more product-oriented. We have come to recognize the importance of “enhancing customer contacts” in order to better understand and work closer to our customers. In 2016, we announced both internally and externally that we would once again return to our starting point of “community-based operations” primarily led by the Local Area Sales Departments and have continued to operate in that manner.

Customer characteristics vary depending on the geographic area. There are areas where manufacturing companies are concentrated and areas with many small- and medium-sized companies. Each Regional Sales Manager is expected to understand the characteristics of the area and

contribute to the development of the local community as the “president” in charge of the area. To support such roles of sales managers in each area, OTSUKA CORPORATION has established and is promoting the use of a region-based evaluation system. No matter the arrival of digital society, or how much technology advances, OTSUKA CORPORATION’s style will remain unchanged, that is, to stay rooted in the local community and grow together alongside our customers.

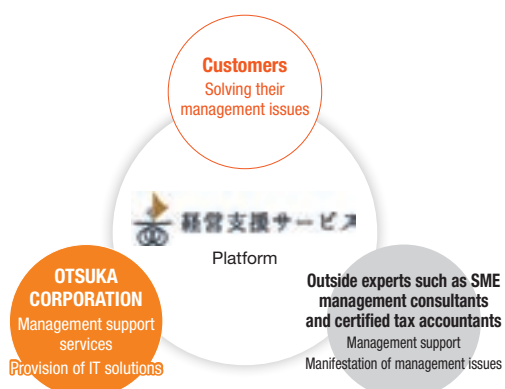
The Regional Sales Manager is like a “president” in charge of the area. Meeting our customers’ needs that vary from region to region



Bases (As of December 31, 2021)**Featured businesses** **Management support services**

Professional business analysts look into the current status of the customer's business and offer advice for improvement free of charge. OTSUKA CORPORATION gains insight into customers' needs and supports solving their problems through community-based operations, and not all problems can be solved by IT alone.

We cooperate with outside experts such as registered SME management consultants to contribute to solving our customers' management issues that are difficult to solve with IT alone.

**Related Services****●Services to support utilization of subsidies**

We provide speedy and one-stop support for filing a subsidy application, including preparation and submission of business plans and other necessary documents.

●dotData AI analysis services

Comprehensive service and support utilizing AI. The AI analyzes huge amounts of data, makes predictions and judgments based on data trends. Customers can also receive advice from SME management consultants based on the results of analysis.

●Training to update theoretical policies for SME management consultants

We provide training to update theoretical policies to SME management consultants.

tayoreru Contact Center

tayoreru Contact Center

Central bases for maintenance services provided by OTSUKA CORPORATION. It is a “general contact for customers” responsible for post-installation support, maintenance, and providing information, where experts in various fields promptly provide solutions to customers’ problems, supporting them via telephone or remotely. They support customers in their problem solving and increasing operational efficiency, while being always considerate of customers’ feelings, in accordance with the five principles (be kind, polite, accurate, speedy, and to complete problem solving).



Management mechanism to enhance value proposition

Improve customer communication skills

- **Roleplaying-based tests**
New members are evaluated based on OTSUKA CORPORATION's own standard
- **Telephone communication skill tests**
Guidance and support are provided to communicators who do not meet the standard based on regular tests
- **Training, etc.**
External telephone communication skill contests, and various trainings on telephone communication skills and the system of OTSUKA CORPORATION

Customer feedback/award system

- Record customer survey results and the details of customer communication via telephone in the Company's system and share them
- Roll out good practices/Consider how to avoid the recurrence of miscommunication and customer complaints
- Maintain and improve the motivation of communicators through an award and appreciation for good performances

Committee activities

- Organize cross-organizational committee activities consisting of group leaders (6 committees such as CS and standardization)
- Hold monthly meetings to share actions taken. Aim for the Center-wide optimization to improve customer satisfaction
- Business continuity activities by the BCP Committee also facilitated a smooth transition to teleworking at the start of COVID-19



Initiatives for teleworking

The transition to teleworking went smoothly, as we had worked on initiatives for business continuity in preparation for an emergency since the pre-pandemic period. We have promoted working from home since April 2020, when a state of emergency was declared. Although more than 80% of our

employees work from home, we are able to maintain a high level of service through the use of technology. In addition, we have developed an environment where employees can work at home with the same sense of security as when they work in the office.

Evolving initiatives



“In Numbers”

tayoreru Contact Center

- Number of support cases provided per month Approximately **150,000**
- Number of staff providing support Approximately **600**
- Number of offices providing support **280** offices nationwide
- Number of engineers Approximately **3,000**
- Number of Centers **4**

* Located in Tokyo and other three different areas as a BCP measure

External Recognition

Customer satisfaction survey (conducted by J.D. Power Japan, Inc.)

- We were highly rated in the 2021 customer satisfaction survey

Call center for corporate technical support

	2019	2020	2021
-Business software category	No. 3	No. 1	No. 1
-PC & tablet category	No. 2	No. 2	No. 2
-Copier & printer category	No. 3	No. 1	No. 3
-Server category	No. 5	No. 2	No. 3

Cloud service provider

Cloud-based groupware installation vendor segment

No. 1 for 2 consecutive years

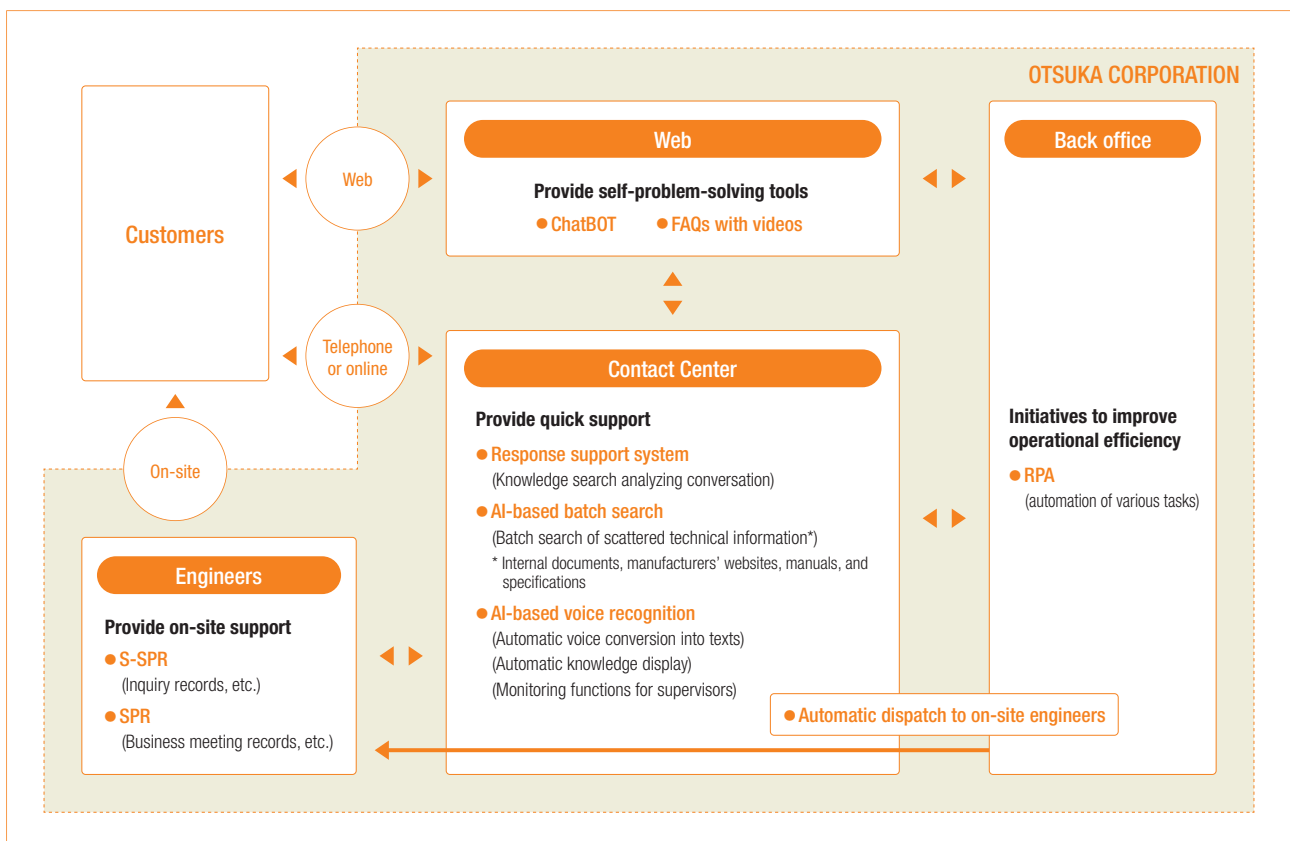


Responses to risks and opportunities

Use of technology

We have implemented initiatives to increase our value proposition to customers while improving their operational efficiency by leveraging a number of technologies, including AI and ChatBOT. We have provided and will continue to

provide each individual customer with the optimal and fastest support to contribute to their cost reduction and productivity improvement.



Share DX know-how of OTSUKA CORPORATION widely

Support Customers in Their DX Promotion

In response to the societal digital shift, which is promoted by the government, in order for Japanese small and medium enterprises to continue to grow in the future, business process reform through DX is essential. We support our customers in their DX promotion with various solutions that only multi-vendors can provide, based on our in-house initiatives and abundant experiences.



DX Office
(Face-to-face or online)

Permanent exhibition space to promote our customers' DX

We opened the DX Office, where our customers can see procedures required for DX promotion and enable them to recognize challenges and their needs, on the 3rd floor of the head office building of OTSUKA CORPORATION (April 2021).

We renewed the exhibits in April 2022, displaying many solutions to assist our customers to realize their own DX. These exhibits reproduce our know-how based on the long history of in-house DX promotion, including teleworking, AI utilization, and the digitization of paper documents, in various office settings.

Value proposition

- Since its opening, approximately 600 customers have visited the DX Office.
- As the DX Office is a permanent exhibition space, customers can visit it at the most convenient time/date for them.
- By renewing exhibits from time to time, the latest solutions can be presented.
- Hybrid support (face-to-face and online)

Exhibition at trade fairs in February 2022 (Tokyo)



Exhibition reproduced at the head office building of OTSUKA CORPORATION (3rd floor)



Various contents are also available online



DX Chart

Visualize the status of DX promotion and share it with our customers

The DX Chart is one of OTSUKA CORPORATION's sales tools.

By organizing and visualizing the IT environment of our customers, we identify their current challenges and share the direction for DX realization with them.

We also work to improve our sales skills and value proposition through in-house DX Chart study sessions.



DX Chart
(Visualize the status of DX promotion and share it with our customers)



Value proposition

- Comprehensively capture relevant information including the various services and equipment provided by OTSUKA CORPORATION.
- Accumulate data utilizing SPR. This enables us to make proposals with objective rationale; for example, comparing the customer's DX promotion status with that of other customers.
- Combine the DX Chart and other charts to identify priorities for individual customers and offer the optimal solutions.

Solve diversifying social issues with the power of IT

Support the DX Promotion Efforts of Local Governments

Approaches of OTSUKA CORPORATION

As we enter the era of VUCA, partly due to the accelerating environmental changes caused by the spread of COVID-19, initiatives to create a new society are expected to be promoted. Meanwhile, social issues that hinder the promotion of such initiatives are also emerging. OTSUKA CORPORATION strives to contribute to solving social issues by developing new solutions that combine various IT services, leveraging our strengths as a multi-vendor & multi-field company.



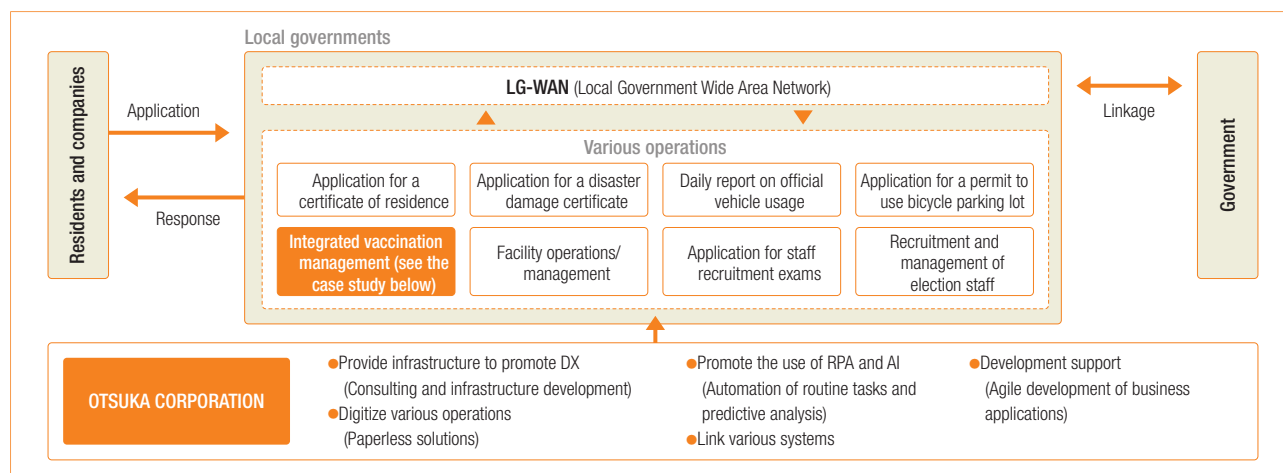
Specific approaches

Solutions to build infrastructure for DX promotion for local governments

Following the publication of the “Basic Policy for Reforms towards the Realization of Digital Society” by the Japanese government, OTSUKA CORPORATION started providing “solutions to build infrastructure for DX promotion for local governments” in April 2021. Administrative services are typically conducted face-to-face and are time-consuming and

burdensome for both staff and residents, with the burden of paperwork for staff being a common issue for many local governments. The Company continues to support local governments in their “initiatives to promote DX” in order to improve both the efficiency of municipal operations and convenience for residents.

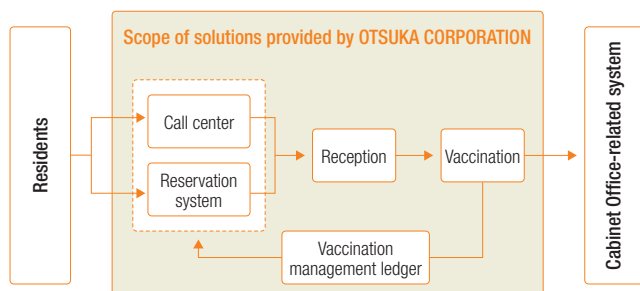
Outline of solutions to build infrastructure for DX promotion for local governments



36

Case study

Reservation and reception system for COVID-19 vaccination — Ishikari City, Hokkaido



Outline of system implemented

We provide comprehensive services from vaccination reservation to subsequent data management and data linkage with the related systems. We worked to optimize the entire process while improving operational efficiency by using QR codes for status management at vaccination sites and RPA for system linkage and data transfer of vaccination records.

Please see our website for details.
(Japanese only) →



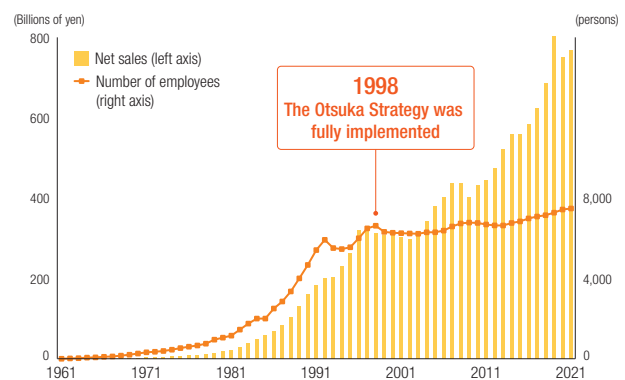
Management process reform through Otsuka Strategy

IT-Driven Productivity Improvement

The Otsuka Strategy, which was fully implemented in 1998, has changed the business model of OTSUKA CORPORATION dramatically. When breaking down our sales into the “number of employees” x “net sales per employee,” the pre-Otsuka Strategy growth driver was an increase in the “number of employees.” However, the “number of employees” has increased only slightly since the Otsuka Strategy was fully implemented, and the growth driver has shifted to “net sales per employee,” that is, productivity improvement. The productivity improvement is supported by the way of working established through the Otsuka Strategy and ongoing digitization effort.

OTSUKA CORPORATION started its digitization effort ahead of all others, and has accumulated its know-how. We provide the know-how gained from our in-house practices to our customers to contribute to their productivity improvement. Our role is to help our customers solve their difficulties in securing IT personnel using the solutions of OTSUKA CORPORATION.

Changes in net sales and the number of employees (non-consolidated)



Business
process reform

History of digital shift

OTSUKA CORPORATION had actively adopted IT even before the term DX was coined, and has continued to reform its business process. Adopting and utilizing the latest solutions ahead of all others and allowing each employee to experience the benefits and challenges of such solutions has enabled us to propose solutions that only OTSUKA CORPORATION can offer.

1990s

Digitization of documents/
one PC per employee/
video conference/groupware

2000s

SPR/S-SPR/workflow/mobile utilization/
remote access/access control/
attendance management system

2010s

Provision of electronic invoice/
electronic catalogs/introduction of
teleworking system/RPA/ChatBOT/
AI cameras

2020s

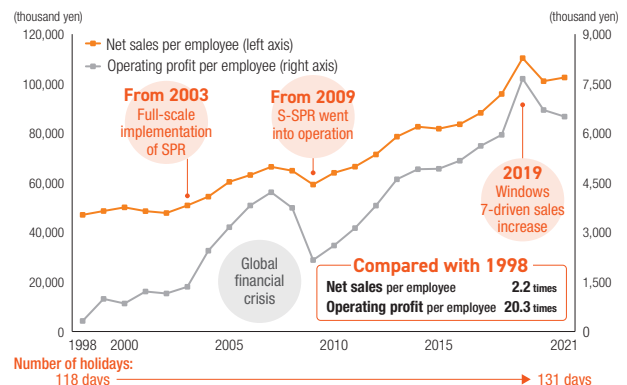
Adoption of electronic contracts/
remote work for entire company/
introduction of free-address workplace/
AI-based sales support enhancement



Productivity
per employee

Improved productivity with the Otsuka Strategy

The graph on the right shows changes in net sales and operating profit per employee (non-consolidated). They have been on a long-term upward trend since the Otsuka Strategy was fully implemented in 1998, and we continue to strive for further improvement through promoting the Otsuka Strategy II.



Contribute to a sustainable society

Commemorative Project for Our 60th Anniversary



In July 2021, OTSUKA CORPORATION celebrated its 60th anniversary. In the 60 years since its foundation, OTSUKA CORPORATION has continued to grow with the support of our customers and by always supporting them. We have contributed and will continue to contribute to cost reduction and productivity improvement of our customers while nurturing relationships with them.



Global environment

Project contributing to the global environment

1 Continue overseas afforestation activities



In 2011, OTSUKA CORPORATION planted eucalyptus trees, a raw material for paper, on 150 hectares of land in Macapá in Amapá State, Brazil, and named the area “Tanokun No Mori (TANO-kun Forest),” which has since expanded to 500 hectares. Since 2017, we have cut down trees by 50 hectares every year and sold copy paper made from logged trees, for every sale of which we make a certain amount of donation, as “TANOSEE αEco-Paper.” We continue this activity as our commemorative project for the Company’s 60th anniversary.

“Tanokun No Mori” has obtained FSC certification, a forest certification system, and we will gradually transform “TANOSEE αEco-Paper” into FSC certified products starting in 2022.



2 Endorse and participate in various initiatives



- **March 2021**
Japan Climate Initiative
- **February 2022**
TCFD (Task Force on Climate-related Financial Disclosures) **P.45**
SBT (Science Based Targets) **P.45**

3 Provide financial assistance to environmental conservation activities



- Contribute to organizations engaged in environmental conservation activities by widely inviting applications (10 million yen in total for 10 organizations)
- Contribute to WWF Japan for its overall activities on climate change (10 million yen)
- Participate in a reforestation project in the Amazon rainforest in cooperation with Conservation International Japan, an international environmental NGO (75,000 US dollars)



Local community

Project contributing to local communities

4 Donate disaster response equipment to local governments



We have donated shower facilities and generators for disaster response to local governments. We will communicate it widely to our customers as a BCP solution to prepare for the risk of business disruptions in the event of a large-scale natural disaster.



List of donation recipients

- Uwajima City, Ehime Prefecture
- Ainan-cho, Minamiuwa-gun, Ehime Prefecture
- Izumiotsu City, Osaka Prefecture
- Yakage-cho, Oda-gun, Okayama Prefecture
- Kawasaki City, Kanagawa Prefecture
- Shimanto-cho, Takaoka-gun, Kochi Prefecture
- Kuroshio-cho, Hata-gun, Kochi Prefecture
- Tokushima Prefecture (Prefectural government)
- Aizumi-cho, Itano-gun, Tokushima Prefecture
- Matsushige-cho, Itano-gun, Tokushima Prefecture
- Minami-cho, Kaifu-gun, Tokushima Prefecture
- Moka City, Tochigi Prefecture
- Unzen City, Nagasaki Prefecture
- Kumano-cho, Aki-gun, Hiroshima Prefecture
- Wakuya-cho, Toda-gun, Miyagi Prefecture

* Listed in Japanese alphabetical order.

Image left Source: rayPower (<https://raypower-engine.com>)

Image right Source: WOTA CORP. (<https://wota.co.jp>)

Sustainability System at OTSUKA CORPORATION

The mission of OTSUKA CORPORATION is to provide the evolution of information and telecommunication technology within a concrete framework of solutions and to energize our customers. We support our customers' business activities and their sustainable growth. More energized customers create a spiritually rich society. It will contribute to the achievement of the SDGs that the international community is aiming for. OTSUKA CORPORATION has always moved and will continue to move toward the realization of the "Mission Statement."

Simultaneous Realization of Economic Value and Social Value



Mission Statement

Value Creation

Materiality
OTSUKA CORPORATION

Environment

P.44-47

As a social responsibility for the environment, we will actively promote environmental protection activities with the goal of contributing to the global environment through our business so that we can pass on a healthy environment to the next generation.

By strengthening corporate governance as the basis of our business, we will strive to realize highly transparent business activities and achieve sustainable growth and value over the medium to long term.

Governance

Sustainability Principles

Sustainability

Statement

Sustainable Growth

Quality of
CORPORATION P.41

Contribution to Environmental,
Social, and Economic Sustainability
across Generations

Society

P.48-54

We will meet the expectations and trust of all stakeholders through initiatives such as respect for human rights related to our business, contribution to local communities, support for employee growth, promotion of diversity, and social contribution activities.

governance with the
basis of our compliance, we
transparent management,
, and improve corporate
long term.

P.55-60

Promotion System

Basic Policy

P.41

Contribution to achieving

**Sustainable
Development Goals**

**SUSTAINABLE
DEVELOPMENT
GOALS**

Sustainability Management

Basic Policy

Sustainability Basic Policy

We aim 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.

Please see our website for details
(Japanese only)➡

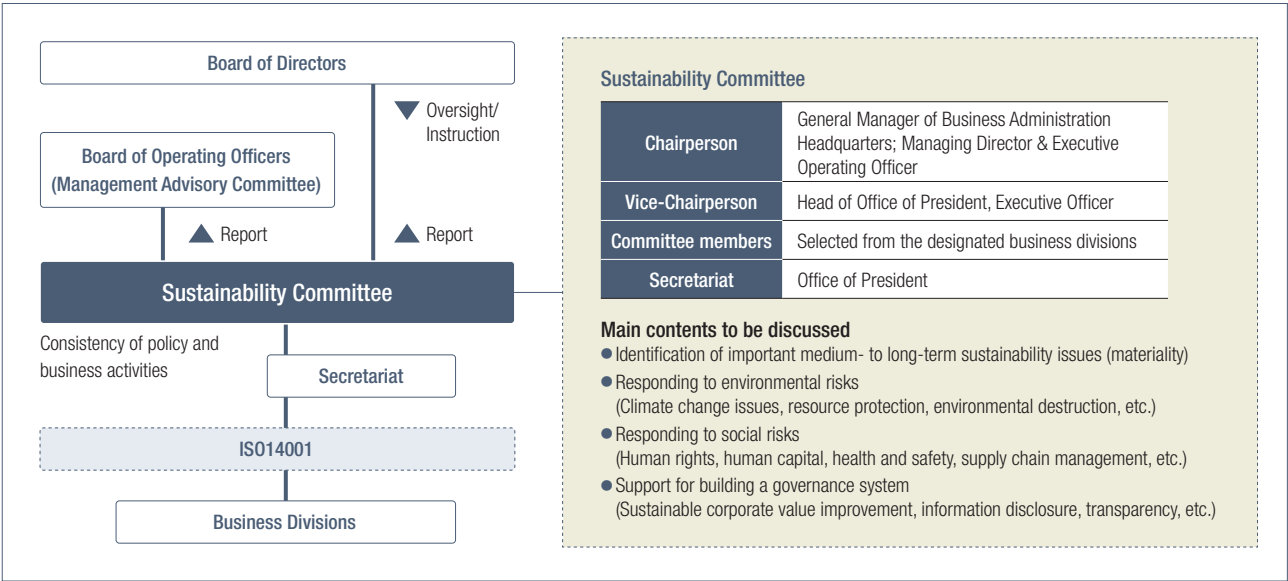


Promotion System

The Sustainability Committee was established in November 2021 to promote management from the perspective of sustainability.

The Sustainability Committee will contribute to the achievement of SDGs and respond to ESG issues by

formulating company-wide policies and goals regarding sustainability, building and maintaining a promotion structure, and utilizing the ISO14001 management system for monitoring each activity.

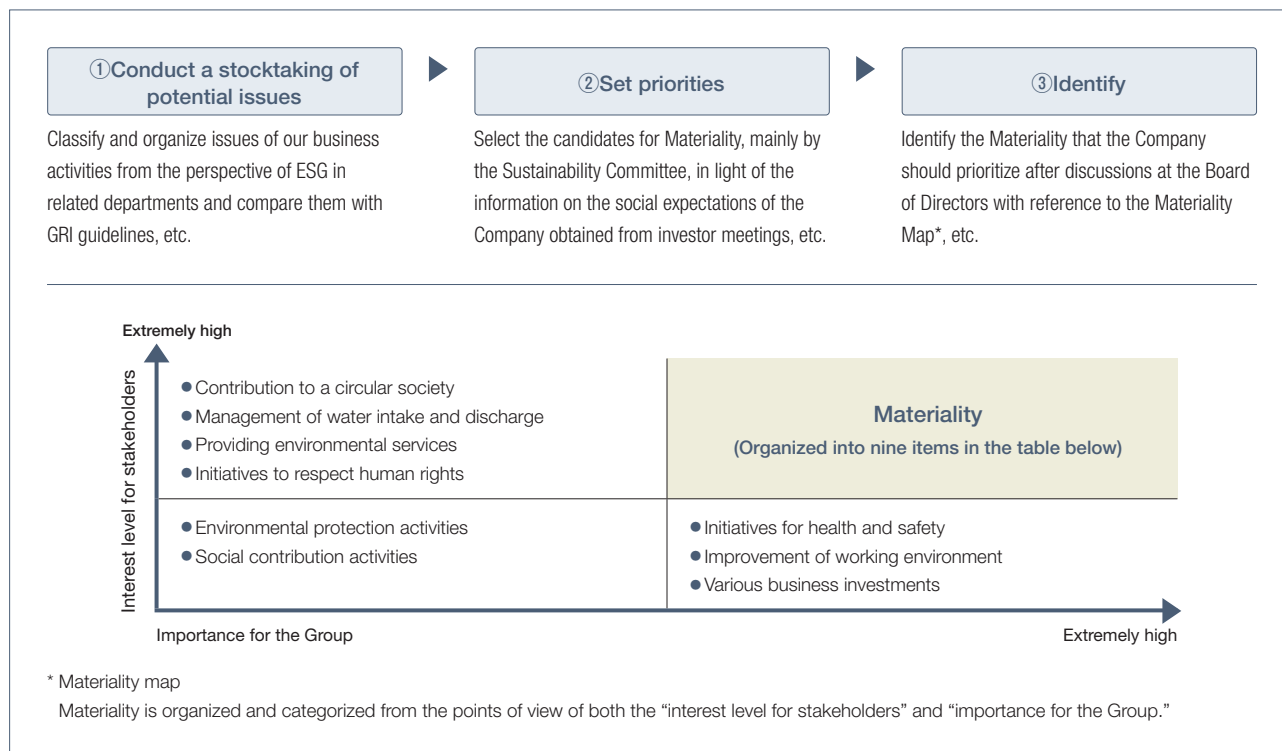


Materiality

After discussions at the Sustainability Committee and the Board of Directors, we have identified three groups and nine items of Materiality toward the sustainability management that OTSUKA CORPORATION is aiming for. We classify and organize the issues of our business

activities from the perspective of ESG, compare them with each index such as the GRI Guidelines (international guidelines on sustainability), and set the issues that OTSUKA CORPORATION should prioritize as Materiality.

► Materiality Identification Process



Materiality

Reasons for Identification

Value creation through business activities	①	Maintenance and expansion of the customer base	OTSUKA CORPORATION has expanded our business domain and continued to grow in response to the various needs of our customers. Sharing the know-how gained from transactions with many customers widely to society is the source of increasing the added value of OTSUKA CORPORATION.
	②	Coexistence and co-prosperity with partners	Being a multi-vendor is one of the strengths of OTSUKA CORPORATION. We receive excellent products, services, and technologies in each field from many partners in order to provide the optimum solution for each customer. Coexistence and co-prosperity with a wide range of partners is indispensable from the perspective of risk diversification in the event of an emergency.
	③	Coexistence with the community	From the time of its founding to the present, OTSUKA CORPORATION places special emphasis on business activities rooted in the community. We believe that this kind of community-based style will create a virtuous cycle of mutual development between “OTSUKA CORPORATION” and the “community.”
Support for employee growth and self-fulfillment	④	Improvement of employee engagement	OTSUKA CORPORATION has continued to grow with each employee having a sense of fulfillment and accomplishment in their work. We believe that the growth of our employees will contribute to the value creation in our business activities, which in turn will lead to the embodiment of our Mission Statement.
	⑤	Promotion of diversity and inclusion	In order to anticipate change and continue to provide solutions that are in line with the times, it is important to further increase the diversity of our organization in the future. OTSUKA CORPORATION aims to be a company that continues to create new value that has never been seen before, while creating a comfortable working environment for all employees.
	⑥	Human resource development	In order to put into practice the strength of OTSUKA CORPORATION, “Multi-vendor & multi-field,” we must continue to learn expertise and the latest technologies. OTSUKA CORPORATION continues to support employees’ self-fulfillment while providing a place for continuous learning.
Implementation of responsible corporate activities	⑦	Response to climate change	Responding to global climate change is positioned as one of the SDGs and is an issue that should be tackled globally. It is also one of the important management issues for OTSUKA CORPORATION, and we believe that initiatives toward the realization of a carbon-free society are extremely important missions. By recommending and providing customers with merchandise and services with excellent sustainability, we will increase corporate value and mitigate environmental impact at the same time.
	⑧	Information security to provide safe and secure solutions	OTSUKA CORPORATION is developing a support business that covers all corporate activities. In this business activity, we believe that one of the important issues is to properly handle information assets and protect these assets from various threats surrounding them. Thus, we will establish and promote policies regarding compliance with laws and regulations related to information security, protection of information assets, establishment of systems, implementation of education and training, continuous improvement, and measures against violations.
	⑨	Strengthening governance	Based on corporate ethics and the spirit of compliance spelled out in its Mission Statement, OTSUKA CORPORATION will continue to strive to adapt agilely to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness. We also recognize that fostering the next generation of management is an important management issue.

ESG at OTSUKA CORPORATION

Environment

44 Our Thinking toward the Environment

Environmental Philosophy / Environmental Policy

Environmental Management System

OTSUKA Eco-Action Plan

45 Climate Change

Support for Initiatives

Initiatives to Mitigate Climate Change through Our Business Activities

47 Circular Society

Conservation of Biodiversity

Society

48 Initiatives to Respect Human Rights

Policies

Structure and System

Initiatives

49 Engagement

Structure and System

Initiatives

50 Diversity and Inclusion

Active Participation of Diverse Human Resources

Initiatives for a Society with Diversity

51 Human Resource Development

Initiatives for Human Resource Development

52 Fostering Next-Generation Leaders and Management (OTSUKA Leader's College)

Initiatives for Creating Job Satisfaction

53 Improvement of Working Environment

Initiatives for Health Management

Work-Life Balance

Utilization of AI for Organizational Revitalization

54 Social Contribution Activities

Specific Initiatives

Governance

55 List of Directors and Auditors (Skill Matrix)

57 Corporate Governance System

58 Evaluation of Effectiveness of Board of Directors Compliance

60 Risk Management System

Environment

Our Thinking toward the Environment

OTSUKA CORPORATION has set the goal of its Mission Statement “to demonstrate harmonious coexistence and growth with nature and society.” As a social responsibility for the environment, we are actively promoting environmental protection activities so that we can pass on a healthy

environment to the next generation. To put this into practice, we have established an environmental philosophy and policy, and the OTSUKA Eco-Action Plan, which is a medium-term action plan, and are taking concrete actions.

Environmental Philosophy / Environmental Policy

► Environmental Philosophy

OTSUKA CORPORATION contributes to environmental conservation through its business activities, with the goal “to demonstrate harmonious coexistence and growth with nature and society” stated in its Mission Statement as the guideline.

► Environmental Policy

1. Promoting Environmental Protection Activities

Set environmental objectives and goals based on the environmental philosophy and promote environmental protection activities.

2. Promoting Energy Conservation and Resource Conservation

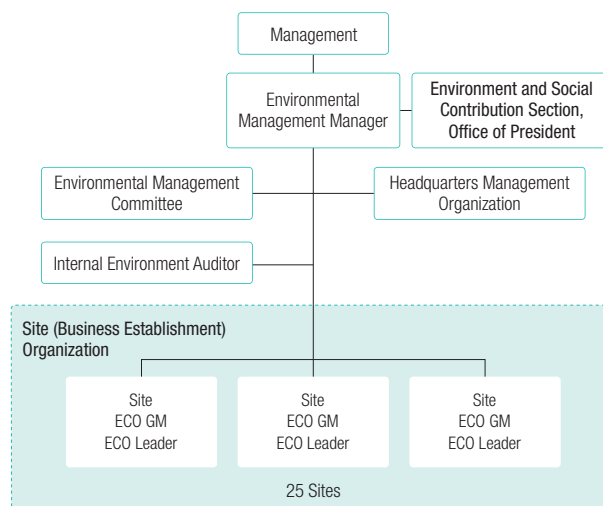
Promote the spread of products and services that contribute to environmental improvement through business activities, strive to reduce the environmental burden, raise employee awareness of the environment, and work to save resources and energy.

3. Prevention of pollution and continuation of environmental improvement

Actively work to prevent and reduce pollution that occurs in the process of business activities. At the same time, focus on appropriate disposal and reuse of waste to continuously improve the overall environment.

Environmental Management System

OTSUKA CORPORATION promotes the environmental conservation activities of the organization by making the best use of the management system of ISO14001, which is an international standard for the environment, and sincerely working to meet the requirements of the standard. As of now, we have acquired ISO14001 certification at 25 major bases nationwide, and are promoting environmental conservation activities through our own site activities and business activities. In addition, even at business establishments that have not acquired the certification, we are conducting activities in accordance with the same management system. Specifically, based on the “OTSUKA Eco-Action Plan,” which is a medium-term action plan, we break down goals for each business site and promote its own activities according to the characteristics of the site.



OTSUKA Eco-Action Plan

OTSUKA Eco-Action Plan is a medium-term action plan for OTSUKA CORPORATION’s environmental conservation activities from 2021 to 2025. We are working to achieve this with the environmental objectives and goals created in line with the framework of ISO14001. In the future, we plan to

make it a more ambitious action plan aiming at Japan’s emission reduction target (NDC: -46% compared to 2013 in 2030) and acquisition of SBT (Science Based Targets) certification.

Environmental Purpose

Environmental Goals

Contribute to CO ₂ reduction by providing environmental solutions and products	<ul style="list-style-type: none"> ● Reduce 150,000 tons of CO₂ by 2025 by expanding sales of LED lighting ● Contribute to society by expanding sales of environmental products in the office supplies mail-order business "tanomail"
Protect the richness of the sea and land through support activities	<ul style="list-style-type: none"> ● Donate "tanomail" Happy Points and support WWF ● Support Oyama Senmaida (terraced rice fields, located in Chiba)
Strive to save water and contribute to "improving water utilization efficiency and reducing water shortages through sustainable water intake"	<ul style="list-style-type: none"> ● Improve the basic unit related to water usage by 1% or more compared to the previous year
Promote environmental protection activities at ISO14001 certified sites	<ul style="list-style-type: none"> ● Promote environmental conservation activities at 25 sites
Contribute to the prevention of global warming by reducing CO ₂ emissions from business activities	<ul style="list-style-type: none"> ● Improve the basic unit related to electricity usage by 1% or more compared to the previous year ● Improve the basic unit related to gasoline usage by 1% or more compared to the previous year ● Improve the basic unit related to copy paper usage by 1% or more compared to the previous year ● Improve the basic unit related to the amount of industrial waste by 1% or more compared to the previous year ● Maintain a recycling rate of 97% or more by operating a disposal scheme ● Maintain the volume of general waste emissions compared to the previous year ● Eco-car (HV / EV) introduction rate of 25% or more ● Promote the introduction of renewable energy

Climate Change

Responding to global climate change is one of the issues that should be tackled globally. Since the adoption of the Paris Agreement, adopting measures against climate change has been accelerating worldwide. In October 2020, the Japanese government also declared "Carbon Neutrality by 2050" to eliminate greenhouse gas emissions on a net basis by 2050, and announced that it aims to realize a carbon-free society.

Under these circumstances, OTSUKA CORPORATION

announced its support for recommendations released by the Task Force on Climate-related Financial Disclosures (TCFD) in February 2022. In addition, we are committed to reducing CO₂ emissions by 2030 by 46% compared to 2013 for our greenhouse gas (GHG) scopes 1 and 2. To that end, we will continue to work on climate change countermeasures and contribute to the transition to a carbon-free society.

Support for Initiatives

We submitted a commitment letter to the SBT Initiative (February 2022), and we are committed to acquiring the SBT certification within two years in order to fulfill our social responsibilities toward the realization of a carbon-free society.

We have also participated in the Japan Climate Initiative since March 2021. This initiative is a network of diverse entities other than the national government, including companies, local governments, organizations, and NGOs that

are actively working on climate change countermeasures under the declaration of joining the front line of the world aiming for decarbonization from Japan.

Currently, low carbon energy has been introduced to the Minami Otsuka Building (Minami Otsuka, Toshima Ward) and the Shinjuku Building (Nishi Shinjuku, Shinjuku Ward). In the future, we will promote the introduction of renewable energy into our own buildings such as the head office building.

Initiatives to Mitigate Climate Change through Our Business Activities

► Environmental Solutions

OTSUKA CORPORATION will support the efforts of a wide range of customers by actively incorporating products and services that contribute to climate change response and by

promoting the spread and expansion of environmental solutions that make use of their experience in using the products and services (please refer to the next page for the main environmental solutions).

LED Lighting Contribute to power reduction with long life and low power consumption.	BEMS (Visualization of electric power) Optimize the operation of power consumption in offices and buildings by comprehensive monitoring and automated control.	Smart Electric Outlet (Plugwise) Easily realize "visualization" of electric power in lighting equipment.	Virtualization of Server Contribute to power reduction with a virtualization technology that uses one server as multiple servers.
Data Center Utilizing data centers eliminates the needs for own servers, which contributes to the reduction of power consumption of customers.	Replace with Latest Power-Saving Laptops Contribute to reducing power consumption by introducing laptops and tablets that consume less power.	Paperless (Digitization) Contribute to saving resources and making effective use of space by digitizing paper materials.	Environmentally Friendly Merchandise Contribute to the environment by promoting green procurement that is friendly to the global environment.

Case Opened a large-scale environmentally friendly distribution center

In October 2021, we opened the "Yokohama Distribution Center" in Yokohama City, Kanagawa Prefecture, as the third distribution base in the Tokyo metropolitan area. We utilize technology to improve logistics productivity, such as expanding the state-of-the-art robot storage system "AutoStore" to the largest scale in Japan. At the same time, it operates as an environment-friendly distribution center with the introduction of solar power generation equipment, LED lighting, and a shuttle rack with less power consumption.

- Introduced two "AutoStore" units expanded to the largest scale in Japan*

* As of July 2021. According to a survey by our logistics contractor

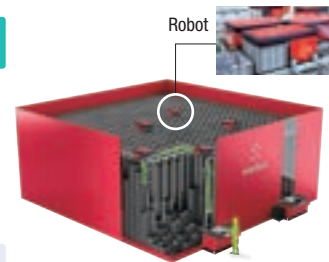
- Improved storage efficiency by 3.5 times compared to our existing distribution center
- Optimized inventory allocation optimized by utilizing AI and big data such as automatic analysis and analytics function
- Made the distribution center unmanned by expanding the station number of DPS (digital picking system). Built a work environment that does not depend on product knowledge by combining image processing with digital check

Shipment frequency:
High

Optimal placement

AI

Shipment frequency:
Low



* Size per unit = 28.5m x 36.0m x 4.1m
(The largest scale in Japan as of July 2021)

Improved shipping speed and logistics productivity at the same time, achieving smooth merchandise supply to customers



Aiming to be a distribution center that coexists and co-prospers with nature and society

Acquired CASBEE-A rank (Yokohama City) as an environmentally friendly building

- Supply approx. 25% of the required power from the full-scale solar power generation equipment installed on the roof
- Reduce annual power consumption by approx. 475,000 kWh (reduction effect of approximately 216 tons CO₂ equivalent) with LED lighting (some are controlled by motion sensors)
- Insulation effect of about 4°C compared to general warehouses by utilizing external insulated sandwich panel and double pack insulated folded roof
- Charge the battery by reusing the regenerative electric power produced when the robot is running. At the same time, reduce power consumption (power capacity is approx. 50% compared to conventional crane-type automated warehouses) as no lighting is required inside the grid (inside the AutoStore)
- Shuttle rack: 33% lighter than conventional equipment (32% improvement in power consumption efficiency per dolly)
- Main transport line: Approx. 40% energy saving effect compared to conventional transport lines

BCP measures

In addition to the latest seismic isolation structure (spherical sliding bearings), it also has BCP functions such as emergency private power generation equipment and network / system duplication, aiming to realize "always functioning logistics."

Circular Society

OTSUKA CORPORATION is implementing various initiatives to minimize the use of resources, aiming for business activities that contribute to a circular society. Specifically, OTSUKA CORPORATION is engaged in activities to minimize waste, such as recycling trade-in equipment received during the sales process and internal use of products in damaged packages.

Initiatives to Reduce Waste

In addition to recycling and internal use, we are working to make effective use of resources, such as donating to NPOs and welfare facilities.

Specific Measures	Overview
OTSUKA Recycling Center	We opened recycling centers in Tokyo and Osaka for the purpose of effective use of resources and commitment to compliance, and we are working to effectively utilize resources, such as selling them as valuable resources or outsourcing the processing to industrial waste companies that can recycle resources after sorting out the disused items generated in the Company and the equipment traded in at the time of new sale by type.
Internal Use of Returned Merchandise	We are working to reduce waste by utilizing the products returned by "tanomail" in-house.
Donation / Support Program of Reused PCs	This activity started in 2001 with Microsoft Japan Co., Ltd. and IO Data Device, Inc. We support the promotion of reuse and computerization of each organization by redeveloping PCs that are no longer used in the Company and donating them to NPOs nationwide through the "authorized NPO e-Parts."
Gift from TANO-kun	We donate merchandise that cannot be sold for some reason but has no problem in use under the title of Gift from "TANO-kun," the "tanomail" mascot, to NPOs and welfare facilities nationwide. We receive the cooperation of SBS RICOH LOGISTICS SYSTEM Co., Ltd. in this activity with free-of-charge delivery within the 23 wards of Tokyo.
Disposal of Leftover Food in the Employee Cafeteria	The amount of food served at the employee cafeteria in the head office building is adjusted according to employees' wishes. Unavoidable leftover food is dried in a processing machine to reduce the volume of waste. In addition, the used oil is purchased by an agent and used as energy for vehicles to run on.

Conservation of Biodiversity

Specific Measures	Overview
"Oyama Senmaida" Terraced Rice Fields Conservation Activities	"Oyama Senmaida" in Kamogawa City, Chiba Prefecture are the only terraced rice fields in Japan that grow rice solely with rainwater. It has been selected as one of the 100 best terraced rice fields in Japan. Conservation activities have been carried out under a "terraced rice field owner system" of the NPO Oyama Senmaida Preservation Society. Since 2005, we have been recruiting participants in farming and harvesting from its employees to cooperate in the conservation of the terraced rice fields.
Support for WWF Japan	OTSUKA CORPORATION has been supporting WWF Japan, an environmental conservation organization, for many years. In addition to supporting the Earth Hour held by WWF Japan every year, we continue to donate to the organization by selecting it as a support destination for the "tanomail Happy Points" donation program. In our commemorative project for the 60th anniversary, we donated 10 million yen to WWF Japan's overall climate change countermeasures to support its activities.
Expand Sales of Lake Papyrus 20	We strive for internal use and sales of "Lake Papyrus 20," paper made from the withered reeds of Lake Biwa and the Yodo River. Cutting the withered reeds on a regular basis contributes to the purification of the water quality of Lake Biwa and leads to an environment where a variety of life can live.
Reforestation Project in the Amazon	This is a reforestation project scheduled to start in July 2022 in collaboration with the international environmental NGO Conservation International Japan. At the Endemism Center of Belém in Pará, Brazil, one of the prioritized protection areas in the Amazon, we will introduce an agroforestry system on 10 hectares of land and reforest it by cultivating a variety of trees. It is an activity that aims to bring income to the local people and for the forest to recover naturally.

Initiatives to Respect for Human Rights

Basic Thinking

OTSUKA CORPORATION has set a human rights policy to understand the human rights of all people and to fulfill its responsibility for respecting human rights. This policy complies with international standards, and OTSUKA CORPORATION supports the principles stipulated in the “International Bill of Human Rights” by the United Nations and the “ILO Declaration on Fundamental Principles and Rights at Work” by the International Labour Organization (ILO).

In addition, we will continue to strengthen our initiatives with partners that constitute our supply chain to address environmental issues, human rights, and labor issues, and continue to take steps to fulfill our greater social responsibilities.

Policies

▶ Human Rights Policies

OTSUKA CORPORATION’s “Human Rights Policy” is disclosed on its website.

Please see our website for details (Japanese only) ➡



▶ Procurement Policies

OTSUKA CORPORATION’s “Sustainable Procurement Policies” is disclosed on its website.

Please see our website for details (Japanese only) ➡



▶ Principles of Corporate Behavior

The actions that OTSUKA CORPORATION’s employees should take are defined as the “Principles of Corporate Behavior” and are disclosed on its website.

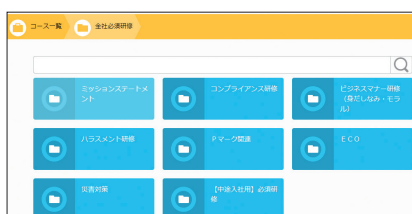
Please see our website for details (Japanese only) ➡



Structure and System

▶ Utilize Web Learning

In order to disseminate the initiatives and practices for respecting human rights, we continue to provide necessary education and training. Various trainings can be taken at any time and any place by using the web. “My Education Page” that manages the training history of each employee enables them to proceed with learning in a planned manner while grasping their progress.



▶ Establishment of Consultation Hotline

- As a consultation hotline for harassment, we concluded a subcontracting arrangement with an external specialized company and started accepting consultations from all employees. In addition, we are making an arrangement not to cause any disadvantages to employees when they consult.
- For the purpose of early detection and correction of violations of laws and regulations and acts that violate the Principles of Corporate Behavior, we have established an internal reporting system (Opinion Box). The President & Chief Executive Officer of OTSUKA CORPORATION himself checks the contents of the Opinion Box.
- We have an external helpdesk on our website for customers and shareholders.

Initiatives

▶ Measures against Harassment

We conduct harassment training every year for all employees so that no harassment behavior, mental or physical, occurs.

In addition to sexual harassment and power harassment, learning a wide range of specific cases such as maternity harassment and alcohol harassment helps to build better relationships and facilitate smooth communication.

Engagement

Basic Thinking

OTSUKA CORPORATION has continued to grow with each employee having a sense of fulfillment and accomplishment in their work. We aim at “employee growth = company growth = customer growth,” and continue to foster a corporate culture and work on various measures to achieve this goal. We conduct continuous monitoring of employee engagement through “employee awareness surveys” and “workplace improvement round-table conferences,” and promote initiatives such as career development support and self-development support.

Structure and System

Employee awareness surveys are conducted every year on a regular basis regarding: (1) Penetration of the Mission Statement, (2) Satisfaction with work environment and (3) Compliance status, etc. In February 2022, we conducted the 16th survey and continue to aim for the realization of the Mission Statement by using the results of the survey for improvement.

	2020	2021
Employee awareness survey response rate	73%	77%

In addition, we hold a workplace improvement round-table conference every year as one of the means of communication in order to reflect the opinions, requests, and suggestions of employees in our management. The results of the consideration of each proposal suggested by employees are posted on the in-house portal site, and the company-wide proposals are being considered by the Board of Directors.

Initiatives

► Career Development Support

We have various systems in place to support employees' self-realization and self-directive career development. By listening to the wishes of employees through the self-reporting system, we will promote growth in an environment that is more rewarding and fulfilling than ever before.

- (1) Self-reporting system (transfer to the department that employees desire)
- (2) In-house job posting system (in-house personnel flow measures)
- (3) Sales grade system (career formation)

► Self-development Support

In order to support employees' self-development and self-realization, we provide support for qualification acquisition, support for correspondence course attendance, and optional training for voluntary participation outside working hours. In particular, we have prepared individual incentive systems for qualifications deemed necessary by the Company and incorporated them into the evaluation system.

Name of Qualifications (Excerpt)

* As of the end of December 2021

Qualifications Related to Information Processing	Number of Qualification Holders
Systems Auditor	94
Information Technology Strategist	148
Project Manager	189
Information Technology Service Manager	116
Systems Architect	138
Network Specialist	243
Database Specialist	128
Embedded Systems Specialist	5
Passed RISS (Registered Information Security Specialist) Exam	489
Registered Information Security Specialist	65
Information Security Management	1,958
E-Certificate	25
G-Certificate	429

Qualifications Related to Information Processing	Number of Qualification Holders
Applied Information Technology Engineer	440
Fundamental Information Technology Engineer	1,107
Information Technology Passport	3,455
Systems Administrator	2,059
Public Qualification	Number of Qualification Holders
Attorney	2
Small and Medium Enterprise Management Consultant	29
Professional Engineer (information engineering)	3
Certified Member Analyst of the Securities Analysts Association of Japan	3

Public Qualification	Number of Qualification Holders
Labor and Social Security Attorney	12
The Japan Business Law Examination, Grade 2	263
The Japan Business Law Examination, Grade 3	730
The Official Business Skill Test in Book-keeping, 1st Grade	16
The Official Business Skill Test in Book-keeping, 2nd Grade	409
2nd-Class Kenchikushi	4
Certified Public Accountant	2
Certified Public Tax Accountant	1
Certified Administrative Procedures Legal Specialist	4

Diversity and Inclusion

Basic Thinking

In order to be a company that is continuously needed for a long period of time, it is important to anticipate changes in the world and coexist with the world while providing solutions that meet the needs and perspectives of the times. OTSUKA CORPORATION embraces and includes each other's diversity and increases "diversity as an organization," consequently continuing to aim to be a company that realizes sustainable value creation by maintaining a comfortable working environment for all employees.

Active Participation of Diverse Human Resources

OTSUKA CORPORATION eradicates all forms of discrimination based on nationality, race, gender (including LGBTQ), age, educational background, creed, religion, social status, physical disability, etc., and conducts recruitment activities with the concept of making each and every employee shine.

We will continue to aim to be a company that can grow sustainably over the long term by continuing to provide opportunities for diverse human resources to demonstrate their individuality and abilities and create new value.

▶ Promoting the Active Participation of Women

In 2011, we established the "Women's Advancement Promotion Project Secretariat." We are striving to foster a corporate culture through "enlightenment activities" while continuing initiatives to "enhance the institutional aspect" as a foundation for pleasant working environments. We are also continuing our initiatives to become a company where women can play an active role by establishing in 2014 and continuing to operate the "Women's Hotline" as a consultation desk for female employees to consult female-specific issues such as pregnancy and childbirth.

* As of the end of December 2021

	Women	
	Number of Women	%
Number of newly hired graduates (Increase / decrease from the previous year)	102 (-14)	29.0% (-3.3%)
Number of full-time employees (non-consolidated) (Increase / decrease from the previous year)	1,797 (+60)	24.0% (+0.6%)
Management position (Section Manager position) (Increase / decrease from the previous year)	60 (+3)	8.6% (+0.4%)

▶ Employment of Persons with Disabilities

More than 100 employees with disabilities work at OTSUKA CORPORATION and are active in various departments. In addition to participating in interviews organized by Hello Work and private employment support companies, we have held internships to support job hunting activities for students

with disabilities, and many people have participated so far.

After joining the Company, employees who are qualified as "working life counselors for persons with disabilities" conduct regular follow-up interviews and questionnaires with employees with disabilities so that they can work in a better environment.

▶ Employment of Foreign Nationals

By hiring people of diverse nationalities, we are promoting the acceptance of diversity while raising the level of specialized knowledge. We also strive to provide a comfortable working environment even when consideration for working styles after hiring and religions is required.

▶ LGBTQ

LGBTQ employees also work at OTSUKA CORPORATION. We protect the human rights of all employees, respect their personalities, specify the prevention of any discrimination in our Principles of Corporate Behavior, and continue with these initiatives. In addition to providing in-house training on LGBTQ issues, the OTSUKA CORPORATION Heartful Fund supports activities for children and young LGBTQ people.

Initiatives for a Society with Diversity

▶ Barrier-Free Heart

Barrier-free heart means that all people with various mental and physical characteristics and ways of thinking communicate with and support each other in order to deepen mutual understanding. Since 2020, OTSUKA CORPORATION has been carrying out Barrier-Free Promotion Activities for the Heart with the cooperation of the Guide Dog & Service Dog & Hearing Dog Association of Japan. We have appointed the service dog "Kei-kun" as a special employee serving as the "Barrier-Free Ambassador for the Heart" and are continuing activities to raise awareness.



* In 2021, we were certified by the Tokyo metropolitan government as a Best Practice Company in promoting the "barrier-free heart."

Human Resource Development

Basic Thinking

To demonstrate the strengths of OTSUKA CORPORATION as an IT platformer, it is important for each and every employee to continue learning expertise and the latest technologies. OTSUKA CORPORATION provides employees with a place for continuous learning while aiming to maximize the performance of each employee by understanding the skills possessed by the employee and placing the right person in the right place.

We also recognize that nurturing the next generation of management is an important management issue.

Initiatives for Human Resource Development

► Reskilling

As the business environment changes, the required knowledge and skills continue to change as well. OTSUKA CORPORATION has created opportunities for re-learning and the acquisition of new skills and knowledge, and is implementing initiatives to improve human resource performance toward the realization of “to create business models that consistently keep pace with the changing times” stated in its Mission Statement.

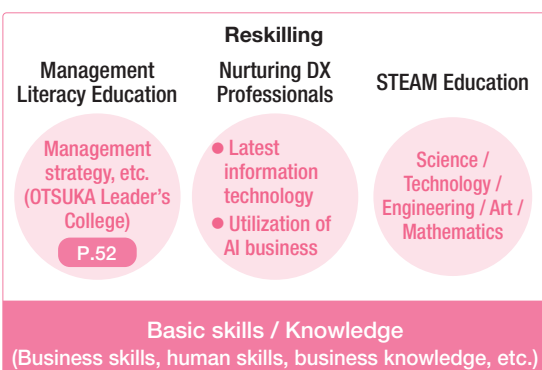
We utilize web-based learning and video distribution to provide learning opportunities regardless of time and place for learning.

► Nurturing DX Professionals

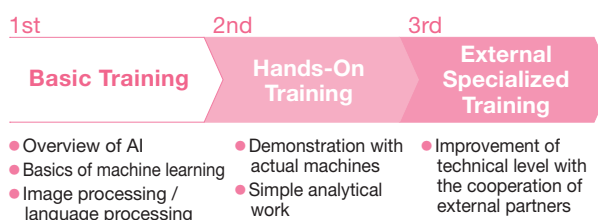
Since the days when the concept of “DX” did not exist, OTSUKA CORPORATION has continued to increase its productivity by utilizing IT and implementing various initiatives. In April 2021, we became a “DX Certified Business Operator” established by the Ministry of Economy, Trade and Industry, and we are currently supporting our customers’ DX promotion based on the know-how of “DX” that we have utilized in-house.

We have also developed an educational program, especially in the AI field, to develop in-house DX human resources. Through three-step training to deepen the understanding of AI, we have produced a large number of successful applicants in the certification exams sponsored by the Japan Deep Learning Association. (25 E-Certificate holders and 429 G-Certificate holders. As of the end of December 2021)

Image of Systematization of Company-Wide Education



- “Basic skills / knowledge” is to learn again as needed to update the foundation of skills / knowledge.
- We will also create an environment for acquiring new knowledge such as “Management Literacy Education,” “Nurturing DX Professionals,” and “STEAM Education.”
- We will provide a mechanism to promote personalized learning by utilizing web-based learning and video distribution. (STEAM Education will start operation in July 2022 and is scheduled to deliver more than 4,000 pieces of content.)



► Talent Management

By centrally managing the skills, knowledge, and experience possessed by employees with a talent management system, we utilize them for effective human resource development, transfer of the right person to the right place, and promote organizational development. In addition to these data, we are continuing our initiatives to create an environment where each employee can independently improve their skills, such as by disclosing their own learning history, etc.

Fostering Next-Generation Leaders and Management (OTSUKA Leader's College)

Nurturing next-generation leaders and management is an important management issue. As a program for that purpose, we launched “OTSUKA Leader's College” in 2015, and in 2019 we strengthened our efforts to “nurture the next generation of management” from an earlier stage. In addition

to acquiring management literacy (leadership, strategy / marketing, finance and accounting, organizational strategy), this program is implemented as a curriculum that allows students to acquire practical competence by providing various output opportunities.

Overview of OTSUKA Leader's College

* Number of people is the cumulative total of active students and graduates
(*As of the end of December 2021)

	Number of Students*	Objectives	Themes and Priority Measures
<p>Senior Leader College (Development of the next-generation Directors)</p>	15	Understand the role of a Director, recognize the management issues to be faced from the perspective of a company listed on the Prime Market of the Tokyo Stock Exchange, and handle IR and other matters from a company-wide perspective	Theme: Integration of knowledge and experience <ul style="list-style-type: none"> ● Discussion of management issues that should be faced as a company listed on the Prime Market of the Tokyo Stock Exchange (SDGs, ESG, decarbonization, etc.) ● Discussion with external partners
<p>Leader College (Development of the next-generation General Managers)</p>	73	Possess a company-wide perspective and knowledge such as management literacy as an executive employee, and produce expected results even in unknown areas	Theme: New practice opportunities <ul style="list-style-type: none"> ● Acquisition of management literacy (strategy, marketing, finance and accounting, etc.) ● Participation in company-wide projects
<p>Next-Generation Leader College (Development of the next-generation Managers)</p>	221	Have a broad perspective that does not rely on expertise, and present his/her own solutions to new issues	Theme: Acquisition of knowledge <ul style="list-style-type: none"> ● Learning the basics of management literacy (strategy, marketing, finance and accounting, etc.) ● Output opportunities such as business contests, etc.

Initiatives for Creating Job Satisfaction

OTSUKA CORPORATION, which celebrated its 60th anniversary in 2021, will work to reinforce human capital as a step toward the next growth. As the environment surrounding our business changes drastically, it is important for us to be “people” who can think and act independently in order to

continue activities that are personalized to our customers. OTSUKA CORPORATION will provide various opportunities, hoping for the growth not only as an employee of OTSUKA CORPORATION but also as an individual.



Improvement of Working Environment

Basic Thinking

Physical and mental health management is important for employees to perform well. OTSUKA CORPORATION is working on employee health management activities in collaboration with its health insurance society and external organizations. In addition, we are promoting work-style reforms that take work-life balance into consideration by utilizing IT, and we are also continuing initiatives to utilize AI to revitalize the organization.

Initiatives for Health Management

- Implementing health management measures such as health examinations and preventive activities for both the physical and mental aspects of employees in cooperation with the health insurance society
- Annual health examinations
- Subsidies for a complete physical examination (for employees aged 35 and above)
- Providing counseling services that cover mental health, including a health consultation desk in cooperation with external EAP* institutions
- * EAP: Employee Assistance Program
- Implementing a challenge to quit smoking, lifestyle-related disease countermeasures, dietary guidance course, etc. regularly

Work-Life Balance

OTSUKA CORPORATION is promoting work-style reforms based on the following four basic policies in order to create an environment where employees can demonstrate their abilities and work with good work-life balance.

Four Basic Policies

1. Promote efficient work utilizing IT
2. Encourage employees to take annual leave
3. Correct / curb long working hours
4. Promote flexible working styles such as teleworking

1. Efficient work utilizing IT

- Digitization of documents
Promote digital processing of in-house documents for applications, contracts, invoices, etc., and realize speedy processing regardless of place
- ChatBOT/AI
ChatBOT for inquiries and AI-based activity support

● RPA

Robotization of routine work

2. Encourage employees to take annual leave

We are implementing a planned grant of up to five days to encourage employees to take annual paid leave. In addition, as our own system, we are encouraging employees to take Premium Day, paid leave for a half-day in the afternoon.

(Ratio of annual paid leave taken: 57.5%; annual average number of holidays: 131 days; 2021 results)

3. Correct/curb long working hours

At the Safety and Health Committee and projects by job category, we discourage employees from working overtime and manage their health. We are also taking thorough initiatives in the declaration and management of working hours.

(Overtime hours per month: 15 hours 10 minutes in 2020; 12 hours 3 minutes in 2021)

4. Promote flexible working styles such as teleworking

Even before the spread of COVID-19, we were working on the initiatives for the use of the teleworking system and satellite offices as one of the work-style reforms. We are creating an environment where all employees can telework, and improve the environment for staff members by adopting a flextime system without core hours.

Utilization of AI for Organizational Revitalization

Utilizing the AI technology of the iPhone version application "Happiness Planet," we are continuing our efforts to support employees to work lively, positively, and happily every day.

The accelerometer in the smartphone and the challenge declaration in the app visualize the relationship between the individual and the team to which they belong, enabling the team to follow up on the individual. We aim to achieve both well-being and improvement of engagement.

Social Contribution Activities

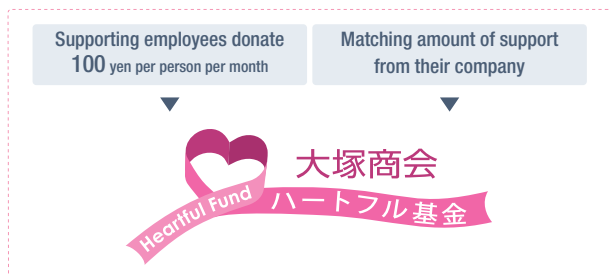
Basic Thinking

We engage in a wide range of social contribution activities, from spontaneous volunteer activities by employees to company-led activities that can be accomplished by taking advantage of the characteristics of OTSUKA CORPORATION with the aim “to demonstrate harmonious coexistence and growth with nature and society” as stated in its Mission Statement. We strive for continuous activities such as community cleanup activities and regular in-house blood donation meetings so that each employee can recognize the connection with the “society” which is the place of business activities.

Specific Initiatives

▶ OTSUKA CORPORATION Heartful Fund

It is a matching gift system for employees and companies that started in 2003. The Group employees who support the system donate 100 yen per month, and their company contributes a matching amount to the fund to be used to support organizations engaged in disaster relief and activities serving the public interest. Since 2003, we have donated a cumulative total of over 100 million yen (2021 results: approximately 15 million yen).



▶ Happy Points Donation Program

Customers are presented with “Happy Points” according to the purchase price from “tanomail.” The accumulated points can be exchanged for merchandise. In addition, we offer a program to donate to “Japan Committee for UNICEF,” “Japan Red Cross Society,” the “Guide Dog & Service Dog & Hearing Dog Association of Japan,” and “World Wide Fund for Nature Japan (WWF Japan)” at the customer’s option.



▶ Food Bank Support (Food Support)

Of the foods and beverages handled by “tanomail,” those that can no longer be sold to customers due to nearing expiration dates are donated to food banks* for effective use.



The donated food and beverages have not expired, and there is no problem in consuming them. In Japan, while such so-called food loss is occurring in large quantities, there are many people in need of food for the day. Through support for food banks, the donated food and beverages are utilized for donations to people in need and welfare facilities, and for soup kitchens in parks.

* Food bank is a social welfare activity to deliver products that are still edible but are disposed of for various reasons to facilities and people that are in need of food.

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

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

OTSUKA CORPORATION has a deep relationship with Atami City, such as by operating the “Hotel New Sagamiya” on the Izusan coast in Atami City since 1985. The Heartful Fund mentioned above also donated 300,000 yen to Atami City. We sincerely pray for the earliest possible recovery of the disaster area, and we will continue to provide support in the future.

Governance



List of Directors and Audit & Supervisory Board Members (Skill Matrix)




The composition of the Board of Directors and the Audit & Supervisory Board as well as the expertise of each officer are shown in the table below.

The table below does not represent all the knowledge and experience of each Director and Audit & Supervisory Board Member, but is listed as a representative skill.

● Directors (as of March 29, 2022)





Primary Skills: ◎ Supplementary Skills: ○

	Years in Office	Nomination Committee and Compensation Committee	Areas of expertise and experience							(Main) Areas of Control
			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	30	●	◎	◎	◎	◎	◎	○	◎	General Manager of Marketing Headquarters
 Kazuyuki Katakura Managing Director & Senior Executive Operating Officer	25	—	○	○	○	○	○	○	◎	General Manager of Sales Headquarters, Deputy General Manager of Marketing Headquarters
 Toshiyasu Takahashi Managing Director & Senior Executive Operating Officer	20	—	◎	○	◎	◎			○	Executive Division Manager of Tanomail Business Division, General Manager of Logistics Promotion Department, in charge of Marketing Automation Center, in charge of Customer Personalized Pages Promotion Center
 Hironobu Tsurumi Managing Director & Executive Operating Officer	12	—	◎	○	○	○	○	○	○	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department
 Hironobu Saito Managing Director & Executive Operating Officer	15	●	◎	◎	◎	◎	◎	○	◎	In charge of Project Promotion Office, General Manager of Business Administration Headquarters, in charge of Marketing Automation Center, in charge of Customer Personalized Pages Promotion Center
 Katsuhiro Yano Managing Director & Operating Officer	20	—	○			○	○		◎	Executive Department Head of Regional Department
 Minoru Sakurai Managing Director & Operating Officer	11	—	○		○		○	◎	◎	General Manager of Technology Headquarters

	Years in Office	Nomination Committee and Compensation Committee	Areas of expertise and experience						(Main) Areas of Control
			Corporate Management	Finance & Accounting	Legal / Risk Management	Sustainability ESG	Personnel & Labor Relations / Human Resources Development	Technical Research and Development	
 Jiro Makino Outside Independent Director	7	●	○		○				Corporate Legal Affairs
 Tetsuo Saito Outside Independent Director	6	●	○	○		○			Corporate Management (Governance)
 Makiko Hamabe Outside Independent Director	1	●	○	○		○			Sustainability, IR

● Audit & Supervisory Board Members (as of March 29, 2022)

Primary Skills: ● Supplementary Skills: ○

	Years in Office	Nomination Committee and Compensation Committee	Areas of expertise and experience						(Main) Areas of Control
			Corporate Management	Finance & Accounting	Legal / Risk Management	Sustainability ESG	Personnel & Labor Relations / Human Resources Development	Technical Research and Development	
 Tatsumi Murata Standing Audit & Supervisory Board Member	1	—		○	○		○		Business in general
 Kazuhiko Nakai Outside Independent Audit & Supervisory Board Member	10	—	○	○					Finance, Accounting
 Etsuo Hada Outside Independent Audit & Supervisory Board Member	6	—	○	○	○				Finance, Accounting, Corporate Legal Affairs
 Katsumasa Minagawa Outside Independent Audit & Supervisory Board Member	2	—	○		○				Corporate Legal Affairs

Corporate Governance System

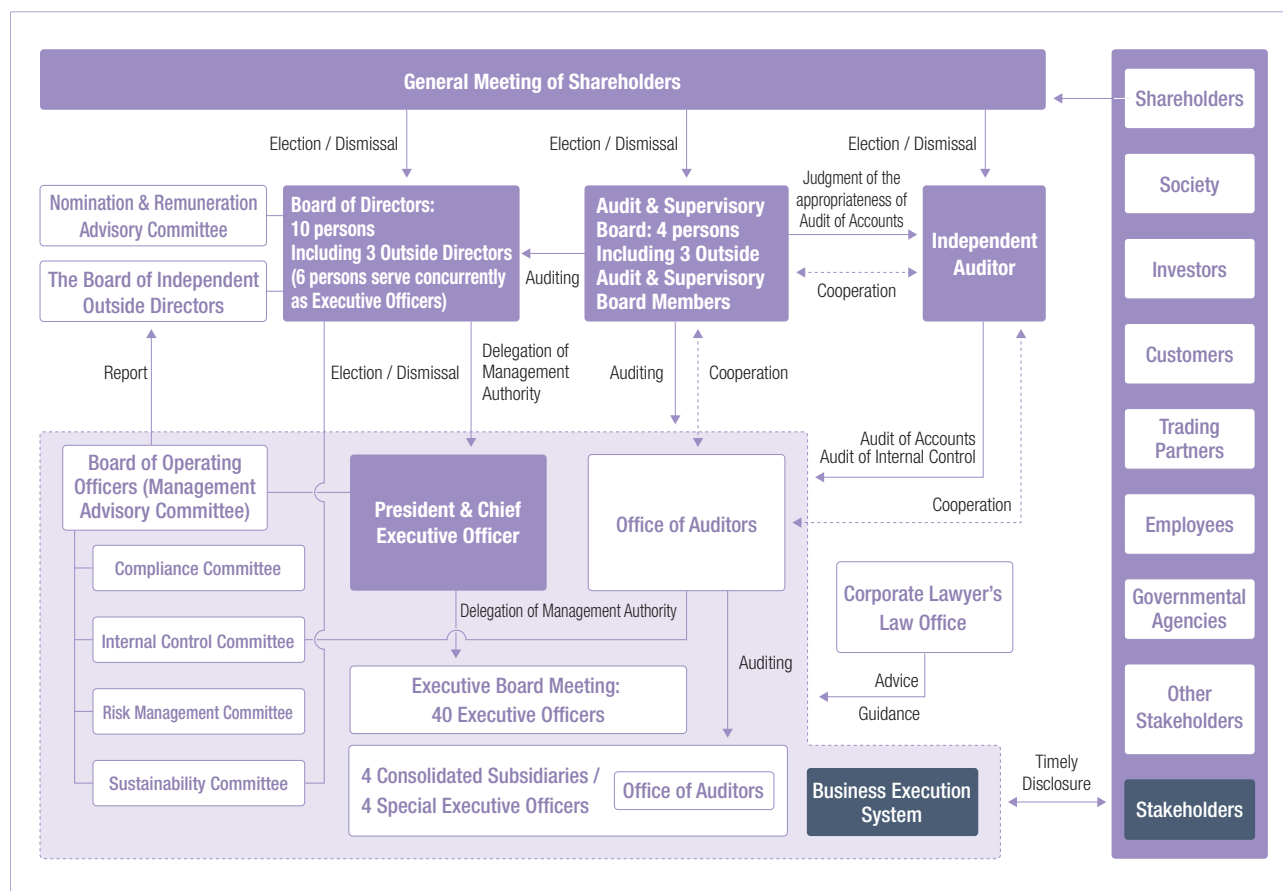
Based on corporate ethics and the spirit of compliance spelled out in its Mission Statement, the OTSUKA CORPORATION Group aims to adapt agilely to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

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

supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Audit & Supervisory Board Members handle the oversight of business execution.

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

Corporate Governance System Chart



Evaluation of Effectiveness of Board of Directors

1 Outline of the Effectiveness Evaluation of the Board of Directors for the fiscal year ended December 31, 2020

Target	The 60th term (the fiscal year ended December 31, 2020)
Period	From Mid-April to Mid-June, 2021
Method	Three outside directors distributed and collected questionnaires to Directors and Audit & Supervisory Board Members (14 in total), and conducted individual interviews based on aggregated results as necessary.

2 Identified Issues

Composition	Ratio and aging of constituent members
Management	Earlier formation of annual schedule and holding meetings online to avoid the risks of infection amid the COVID-19 pandemic
Agenda	1. Medium-term management strategy / Management plan 2. Plan to replace Representative Directors 3. Management's compensation 4. Election / Dismissal of Management
System	Appropriate
Other	Disclosure of non-financial information and establishment of an independent voluntary advisory board

● Establishment of Voluntary Nomination Committee and Compensation Committee

At the extraordinary Board of Directors meeting held on February 21, 2022, it was resolved to establish voluntary Nomination Committee and Compensation Committee as advisory bodies to the Board of Directors, and the committees were established on March 29, 2022 after the conclusion of the Annual General Meeting of Shareholders.

1. Purpose for Establishment

The purpose is to strengthen the transparency, fairness, and objectivity of procedures related to the nomination and remuneration, etc. of Directors, and to enhance corporate governance.

2. Role of the Committees

- 1) Matters concerning the election and dismissal of Directors (matters to be resolved at the General Meeting of Shareholders)

3 Progress in addressing the issues in 2021

Composition	Appointment of young employees to Executive Officers who are to be candidates for Directors
Management	Early formation of annual schedule Holding online Board of Directors meetings
Agenda	1) Medium-term management strategies and management plans will be formulated in parallel while proceeding with information disclosure in line with TCFD recommendations. 2) Regarding the plan to replace Representative Directors, the training for candidates will be continued through OTSUKA Leader's College. 3) Regarding the management's compensation, it will be considered after reviewing employees' compensation. 4) Regarding the election and dismissal of the management team, the explanation of the selection process will be enhanced.
System	—
Other	<ul style="list-style-type: none"> ● Regarding the disclosure of non-financial information, integrated reports, etc. will be prepared. ● Establish voluntary Nomination Committee and Compensation Committee

- 2) Matters concerning individual remuneration, etc. of Directors
- 3) Matters concerning remuneration system of Directors (matters to be resolved at the General Meeting of Shareholders)
- 4) Matters concerning planning for successors (including training)
- 5) Other matters consulted and delegated by the Board of Directors

3. Composition of the Committees

- 1) The majority of the members are independent outside directors, and the number of members is five or more. The Committee members are appointed by the Board of Directors.
- 2) The Chairperson is selected from among independent outside directors by a resolution of the "Nomination Committee and Compensation Committee."

Compliance

One of the Mission Statement of OTSUKA CORPORATION is "fully complying with all prevailing laws and regulations, and maintaining high ethical standards," and OTSUKA CORPORATION is working to establish and strengthen a compliance system. In addition, the "Principles of Corporate Behavior" stipulates specific actions to be taken in business activities.

● Role of the Compliance Committee

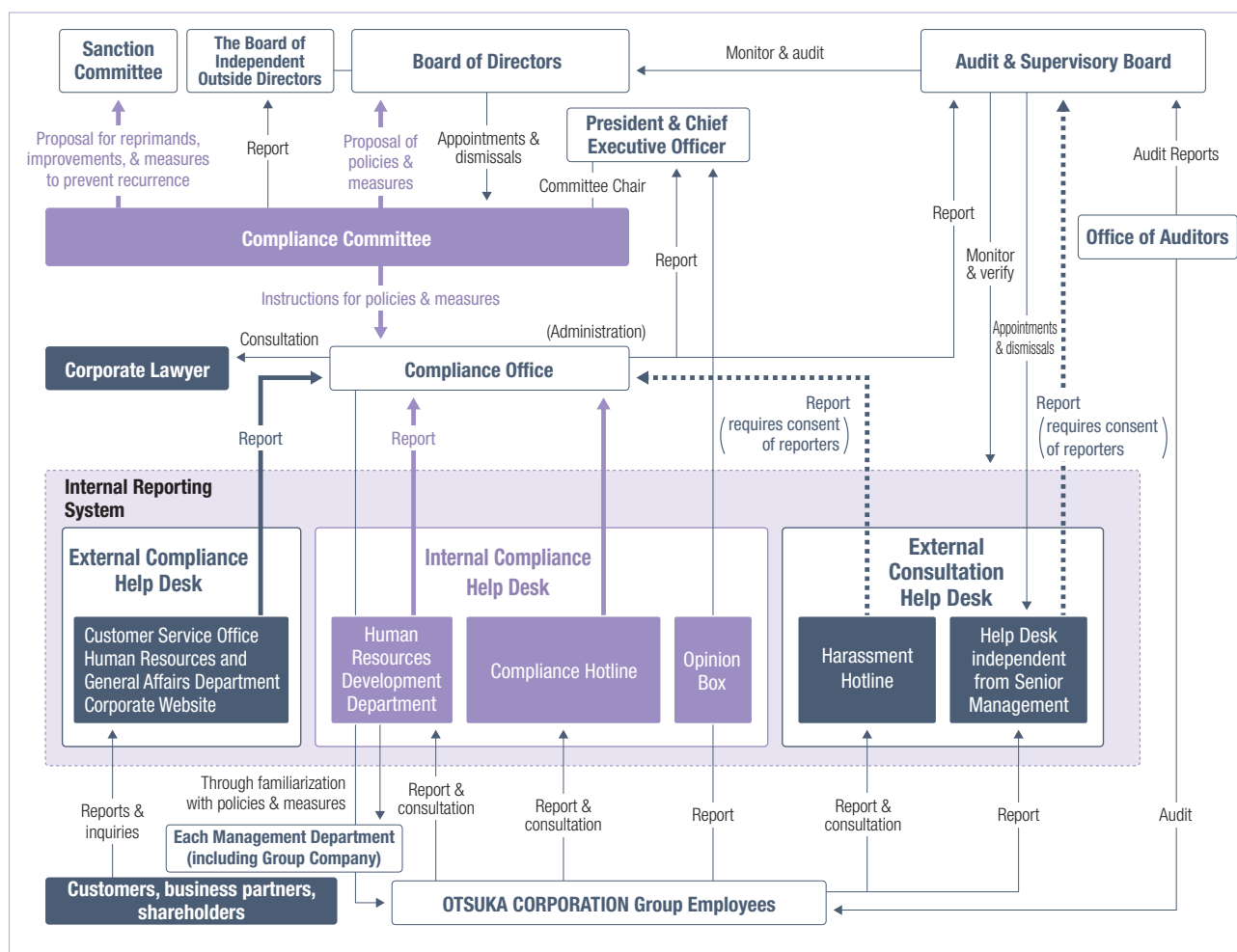
1. Establish a plan for compliance training
2. Identify potential risks associated with business activities and formulate preventive measures
3. Establish a plan to deal with any compliance violations that may occur
4. Plan measures to prevent recurrence
5. Make proposals to the Board of Directors and implement approved policies and measures

1 Compliance System

We established the Compliance Committee and are working for thorough implementation and strengthening of compliance guided mainly by the Committee.

● Constituent Members

The Compliance Committee belongs to the Internal Control Committee.



2 Internal Reporting System

We have established internal and external help desks for consulting and reporting compliance infringements, with the aim of ensuring that we promptly discover and address compliance issues, and prevent their recurrence. In accordance with the Whistleblower Protection Act, we have formulated the “Whistleblower Protection Regulations” and established a consultation desk such as the “Compliance Hotline” to ensure proper processing of reporting.

Please see our website for details (Japanese only) ➡



3 Compliance Education

1. Compliance Manual

The Compliance Manual presents our basic attitude toward compliance. We have established the Principles of Corporate Behavior based on the pledge in our Mission Statement to “fully comply with all prevailing laws and regulations, and maintain high ethical standards.” We aim to embed and enhance awareness of compliance through various training forums, including new employee training and new manager training.

2. Web Learning

All employees are required to take the following web learning courses to reinforce their basic knowledge.

1. Mission Statement
2. Compliance
3. Information Security Management
4. Harassment Prevention
5. P Mark

3. CP (Compliance Program) License System

We operate a CP (Compliance Program) license system through web learning in order to encourage the reinforcement of knowledge about personal information protection and information security.

Risk Management Structure

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and control business risk management. The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department in its scope.

At the same time, efforts are made to enhance crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan. When a risk arises, the President & Chief Executive Officer, who is in charge of crisis management, will consider establishing a crisis management headquarters.

Risk Management Structure



Risk Management Activity Cycle



Financial and Non-Financial Highlights

			2011	2012	2013	2014
Consolidated	Financial results	Net sales	478,215	515,771	564,595	605,766
		System Integration business	262,508	289,840	332,067	362,068
		Service and Support business	214,576	225,298	231,868	243,316
		Other business ^{*1}	1,130	632	658	381
		Operating profit	23,095	28,251	33,901	37,097
		Ordinary profit	23,315	29,079	33,505	38,144
		Profit attributable to owners of parent	12,744	16,277	20,271	23,455
	Financial position	Total assets	229,610	253,158	279,589	305,513
		Equity	116,633	128,471	144,150	163,277
		Interest-bearing debt	8,415	9,367	9,070	9,584
	Cash flows	Net cash provided by (used in) operating activities	23,158	25,879	18,780	34,130
		Net cash provided by (used in) investing activities	(4,604)	(4,894)	(3,468)	(5,410)
		Net cash provided by (used in) financing activities	(4,229)	(5,190)	(6,561)	(7,580)
		Cash and cash equivalents at end of period	52,320	68,113	76,863	97,943
	Per share data ^{*2}	Earnings per share (EPS) (yen)	67.21	85.85	106.92	123.71
		Dividend per share of common stock (yen) ^{*3}	25.83	33.33	39.16	45.00
		Dividend payout ratio (%)	38.44	38.83	36.63	36.38
	Productivity	Net sales per employee (thousand yen)	58,425	63,651	69,634	73,551
		Operating profit per employee (thousand yen)	2,821	3,486	4,181	4,504
	Main financial indicators	Return on equity (%)	11.33	13.28	14.87	15.26
		Operating profit to Net sales ratio (%)	4.83	5.48	6.00	6.12
		Equity ratio (%)	50.80	50.75	51.56	53.44
Non-consolidated	Environment	Scope 1 CO ₂ emissions (tCO ₂)	—	—	6,051	5,987
		Scope 2 CO ₂ emissions (location-based) (tCO ₂)	19,469	19,707	20,725	20,334
		Scope 2 CO ₂ emissions (market-based) (tCO ₂)	—	—	—	—
		Energy and electricity consumption (thousand kWh)	34,828	35,831	37,682	36,904
		Number of ISO14001-certified business sites (sites)	25	25	25	25
Consolidated	Employees	Number of full-time employees (consolidated) (people)	8,185	8,103	8,108	8,236
Non-consolidated		Number of full-time employees (total) (people)	6,684	6,638	6,634	6,758
		Men (people)	5,388	5,354	5,351	5,421
		Women (people)	1,296	1,284	1,283	1,337
		Employee awareness survey answer rate (%)	82	82	84	83
		Training costs for full-time employees (million yen)	450	462	491	462
		Education and training costs per employee (thousand yen)	67	69	74	68
		Number of new graduates recruited (men and women) (people)	152	185	214	300
		Men (people)	109	135	154	209
		Women (people)	43	50	60	91
		Ratio of men (%)	71.7	73.0	72.0	69.7
		Ratio of women (%)	28.3	27.0	28.0	30.3
	Governance	No. of Directors (people)	12	12	12	12
		Men (people)	12	12	12	12
		Women (people)	0	0	0	0
		Average attendance rate of outside directors (%)	—	—	—	—
		Number of executive officers (total) (people)	17	18	17	18
		Men (people)	17	18	17	18
		Women (people)	0	0	0	0

^{*1} Otsuka Auto Service Co., LTD., which was a consolidated subsidiary, was excluded from consolidation from fiscal 2018 due to its reduced impact on consolidated business results. Along with this, the Other business segment is not listed from fiscal 2018 due to the absence of business results.

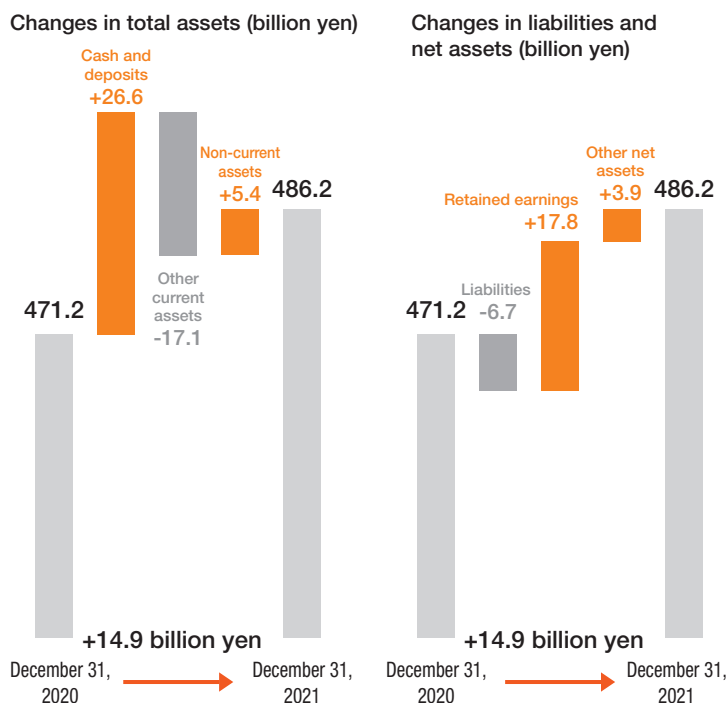
^{*2} The Company has executed a three-for-one stock split, effective July 1, 2014, and a two-for-one stock split, effective April 1, 2018. Accordingly, per share data is calculated on the supposition that the above stock split was executed at the beginning of fiscal 2011.

(Millions of yen)						
2015	2016	2017	2018	2019	2020	2021
609,045	643,417	691,166	759,871	886,536	836,323	851,894
353,170	376,391	408,718	463,293	578,698	526,613	523,609
255,490	266,625	282,064	296,577	307,837	309,710	328,284
385	400	383	—	—	—	—
37,311	39,684	44,386	48,058	62,192	56,309	55,827
38,240	40,780	45,460	49,285	63,706	57,550	57,567
23,705	26,675	31,560	33,601	43,497	39,309	39,927
324,755	343,821	380,317	406,732	461,812	471,292	486,254
173,229	189,851	212,897	229,726	259,328	277,348	298,743
9,344	9,008	8,873	8,256	8,807	8,895	8,851
27,621	23,932	36,153	38,646	48,762	32,496	57,873
(7,235)	(5,823)	(5,243)	(11,096)	(7,934)	(8,716)	(9,160)
(8,742)	(9,532)	(11,528)	(13,470)	(16,221)	(20,988)	(21,957)
109,587	118,183	137,545	151,585	176,198	178,988	205,746
125.03	140.69	166.46	177.22	229.42	207.33	210.59
50.00	60.00	70.00	85.00	110.00	115.00	120.00
39.99	42.65	42.05	47.96	47.95	55.47	56.98
72,617	75,359	79,829	87,021	99,476	91,712	92,889
4,448	4,647	5,126	5,503	6,978	6,174	6,087
14.09	14.69	15.67	15.18	17.79	14.65	13.86
6.13	6.17	6.42	6.32	7.02	6.73	6.55
53.34	55.22	55.98	56.48	56.15	58.85	61.44
6,186	6,185	6,136	6,179	6,753	6,672	5,636
21,624	21,115	17,611	19,431	15,841	13,816	13,153
—	—	—	—	15,022	13,402	13,202
37,348	35,971	34,397	38,861	32,462	29,396	30,376
25	25	25	25	25	25	25
8,387	8,538	8,658	8,732	8,912	9,119	9,171
6,837	6,985	7,080	7,145	7,272	7,429	7,480
5,462	5,545	5,570	5,596	5,627	5,692	5,683
1,375	1,440	1,510	1,549	1,645	1,737	1,797
78	75	78	74	74	73	77
490	445	461	470	489	530	590
71	63	65	65	67	71	78
298	356	336	301	366	359	352
221	273	232	212	244	243	250
77	83	104	89	122	116	102
74.2	76.7	69.0	70.4	66.7	67.7	71.0
25.8	23.3	31.0	29.6	33.3	32.3	29.0
13	14	13	14	12	12	10
13	14	13	14	12	12	9
0	0	0	0	0	0	1
100	97	94	100	100	100	100
20	20	21	20	23	24	27
20	20	21	20	23	24	27
0	0	0	0	0	0	0

*3 The dividend for fiscal 2011 includes the 50th anniversary commemorative dividend of 1.66 yen. The dividend for fiscal 2016 includes the 55th anniversary commemorative dividend of 5.00 yen. The dividend for fiscal 2021 includes the 60th anniversary commemorative dividend of 5.00 yen.

Supplementary Information on Financial Statements

Reasons for changes in consolidated balance sheets



Total assets

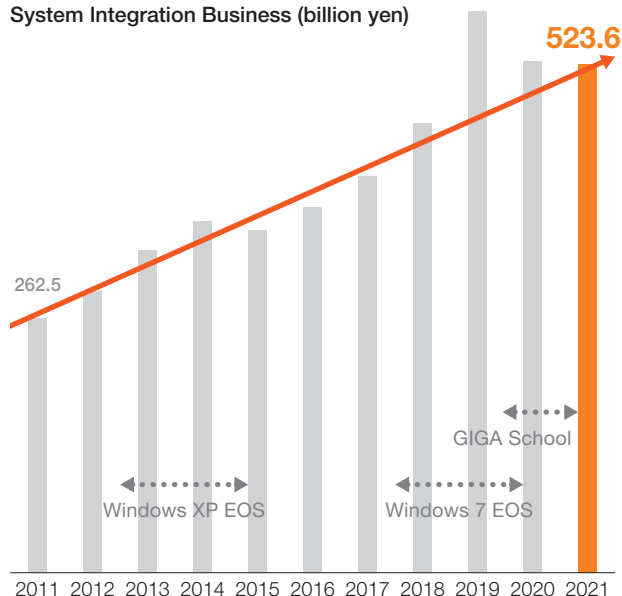
Total assets as of December 31, 2021, increased ¥14.9 billion compared to December 31, 2020. While cash and deposits increased ¥26.6 billion due to advancement in sales of inventories and collection of accounts receivable relating to the GIGA School project, other current assets (mainly accounts receivable and inventories) decreased ¥17.1 billion.

Total liabilities and net assets

Total liabilities and net assets as of December 31, 2021 increased ¥14.9 billion compared to December 31, 2020, mainly due to an increase of ¥17.8 billion in retained earnings. Regarding reasons for changes in retained earnings, please see the Consolidated Statements of Changes in Equity.

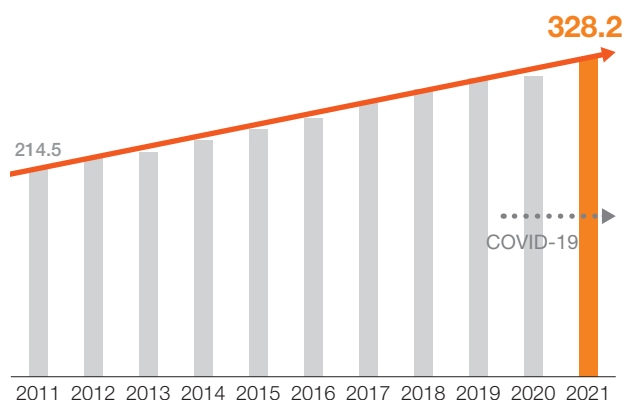
Sales by segment

System Integration Business (billion yen)



The business has been growing steadily in the long term despite being affected by external factors such as the end of support for existing products and amendments of policies and laws.

Service and Support Business (billion yen)



Although the business, mainly the supply and copy maintenance business, was negatively affected due to the spread of COVID-19 in 2020, it has recovered at a cruising speed in 2021 partly due to accumulation of support for remote work provided to customers.

Financial Statements

Consolidated Balance Sheets

(Millions of yen)

	2020	2021
Assets		
Current assets		
Cash and deposits	178,072	204,701
Notes and accounts receivable - trade	145,033	135,786
Merchandise	42,011	33,052
Work in process	1,409	1,235
Raw materials and supplies	776	740
Other	24,320	25,594
Allowance for doubtful accounts	(100)	(75)
Total current assets	391,523	401,034
Non-current assets		
Property, plant and equipment		
Buildings and structures	59,177	52,827
Accumulated depreciation and impairment	(42,738)	(37,405)
Buildings and structures, net	16,439	15,422
Land	15,345	15,092
Other	13,058	16,473
Accumulated depreciation and impairment	(8,613)	(9,277)
Other, net	4,444	7,195
Total property, plant and equipment	36,229	37,710
Intangible assets		
Software	15,072	15,771
Other	59	59
Total intangible assets	15,131	15,830
Investments and other assets		
Investment securities	16,895	22,366
Guarantee deposits	2,337	2,429
Deferred tax assets	7,087	5,336
Other	2,297	1,661
Allowance for doubtful accounts	(209)	(115)
Total investments and other assets	28,407	31,678
Total non-current assets	79,768	85,219
Total assets	471,292	486,254

(Millions of yen)

	2020	2021
Liabilities		
Current liabilities		
Notes and accounts payable – trade	96,437	91,938
Electronically recorded obligations - operating	18,822	17,901
Short-term borrowings	4,800	4,800
Income taxes payable	9,367	8,769
Advances received	16,253	15,746
Provision for bonuses	3,844	3,806
Other	27,314	27,319
Total current liabilities	176,839	170,282
Non-current liabilities		
Long-term borrowings	1,700	1,700
Lease obligations	1,519	1,485
Provision for retirement benefits for directors	762	698
Retirement benefit liability	9,336	9,210
Other	1,098	1,104
Total non-current liabilities	14,416	14,198
Total liabilities	191,256	184,480
Net assets		
Shareholders' equity		
Share capital	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	254,997	272,834
Treasury shares	(139)	(139)
Total shareholders' equity	281,487	299,323
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,527	8,734
Deferred gains or losses on hedges	(5)	8
Revaluation reserve for land	(11,402)	(10,987)
Foreign currency translation adjustment	15	151
Remeasurements of defined benefit plans	1,725	1,513
Total accumulated other comprehensive income	(4,139)	(580)
Non-controlling interests	2,687	3,030
Total net assets	280,035	301,774
Total liabilities and net assets	471,292	486,254

Consolidated Statements of Income

(Millions of yen)

	2020	2021
Net sales	836,323	851,894
Cost of sales	662,598	675,003
Gross profit	173,725	176,890
Selling, general and administrative expenses		
Salaries, allowances and bonuses	45,039	46,035
Remuneration for directors	586	548
Welfare expenses	7,620	8,042
Rent expenses	7,095	7,475
Transportation and storage costs	23,998	26,140
Provision for bonuses	2,602	2,551
Retirement benefit expenses	2,401	1,715
Provision for retirement benefits for directors	60	57
Provision of allowance for doubtful accounts	40	(5)
Depreciation	5,990	6,151
Other	21,978	22,349
Total selling, general and administrative expenses	117,415	121,062
Operating profit	56,309	55,827
Non-operating income		
Interest income	10	14
Dividend income	181	225
Rental income from buildings	262	263
Income from recycling	126	157
Share of profit of entities accounted for using equity method	390	794
Foreign exchange gains	118	64
Other	205	325
Total non-operating income	1,296	1,845
Non-operating expenses		
Interest expenses	44	44
Donations	—	50
Other	10	11
Total non-operating expenses	55	105
Ordinary profit	57,550	57,567
Extraordinary income		
Gain on sale of non-current assets	—	886
Gain on sale of investment securities	225	19
Total extraordinary income	225	905
Extraordinary losses		
Loss on retirement of non-current assets	46	56
Impairment losses	143	220
Other	2	6
Total extraordinary losses	191	283
Profit before income taxes	57,584	58,190
Income taxes - current	17,786	17,142
Income taxes - deferred	(12)	576
Total income taxes	17,774	17,718
Profit	39,809	40,471
Profit attributable to non-controlling interests	500	543
Profit attributable to owners of parent	39,309	39,927

Consolidated Statements of Comprehensive Income

(Millions of yen)

	2020	2021
Profit	39,809	40,471
Other comprehensive income		
Valuation difference on available-for-sale securities	(553)	3,159
Deferred gains or losses on hedges	(9)	17
Revaluation reserve for land	—	126
Remeasurements of defined benefit plans, net of tax	155	(228)
Share of other comprehensive income of entities accounted for using equity method	8	155
Total other comprehensive income	(399)	3,230
Comprehensive income	39,410	43,702
(Breakdown)		
Comprehensive income attributable to owners of parent	38,875	43,199
Comprehensive income attributable to non-controlling interests	535	502

Consolidated Statements of Cash Flows

(Millions of yen)

	2020	2021
Cash flows from operating activities		
Profit before income taxes	57,584	58,190
Depreciation	7,603	7,982
Impairment losses	143	220
Increase (decrease) in allowance for doubtful accounts	(39)	(119)
Interest and dividend income	(191)	(239)
Interest expenses	44	44
Share of loss (profit) of entities accounted for using equity method	(390)	(794)
Loss on retirement of non-current assets	46	56
Loss (gain) on sale of non-current assets	—	(879)
Loss (gain) on sale of investment securities	(225)	(19)
Decrease (increase) in trade receivables	4,560	9,342
Decrease (increase) in inventories	(9,651)	9,169
Increase (decrease) in trade payables	(5,853)	(5,419)
Other, net	35	(2,272)
Subtotal	53,666	75,260
Interest and dividends received	344	454
Interest paid	(44)	(44)
Income taxes paid	(21,470)	(17,796)
Net cash provided by (used in) operating activities	32,496	57,873
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,970)	(5,203)
Proceeds from sale of property, plant and equipment	—	1,546
Purchase of software	(5,893)	(5,679)
Purchase of investment securities	(175)	(198)
Proceeds from sale of investment securities	299	38
Other, net	23	336
Net cash provided by (used in) investing activities	(8,716)	(9,160)
Cash flows from financing activities		
Dividends paid	(20,847)	(21,797)
Other, net	(140)	(159)
Net cash provided by (used in) financing activities	(20,988)	(21,957)
Effect of exchange rate change on cash and cash equivalents	(1)	2
Net increase (decrease) in cash and cash equivalents	2,789	26,758
Cash and cash equivalents at beginning of period	176,198	178,988
Cash and cash equivalents at end of period	178,988	205,746

Consolidated Statements of Changes in Equity

(Millions of yen)

2020

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,374	16,254	236,544	(139)	263,034
Dividends of surplus			(20,856)		(20,856)
Profit attributable to owners of parent			39,309		39,309
Changes in items other than shareholders' equity (Net)					
Total changes during period	—	—	18,453	—	18,453
Balance at end of period	10,374	16,254	254,997	(139)	281,487

(Millions of yen)

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

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2021

(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	254,997	(139)	281,487
Dividends of surplus			(21,804)		(21,804)
Profit attributable to owners of parent			39,927		39,927
Reversal of revaluation reserve for land			(287)		(287)
Purchase of treasury shares				(0)	(0)
Changes in items other than shareholders' equity (Net)					
Total changes during period	—	—	17,836	(0)	17,836
Balance at end of period	10,374	16,254	272,834	(139)	299,323

(Millions of yen)

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

Company Overview and Stock Information

Corporate Data (As of December 31, 2021)

Company Name	OTSUKA CORPORATION
Establishment	July 17, 1961 (Registered as joint-stock company on December 13, 1961)
Capital Stock	¥10,374,851,000
Number of Employees	7,480 (Total number of employees including consolidated subsidiaries: 9,171)
Business	<ul style="list-style-type: none"> ● System Integration Business: Sales of computers, copiers, communication equipment and software, consigned software development and other activities ● Service & Support Business: Supplies, maintenance and educational support and other activities
Main Banks	The Bank of Yokohama, Ltd. MUFG Bank, Ltd. Mizuho Bank, Ltd.

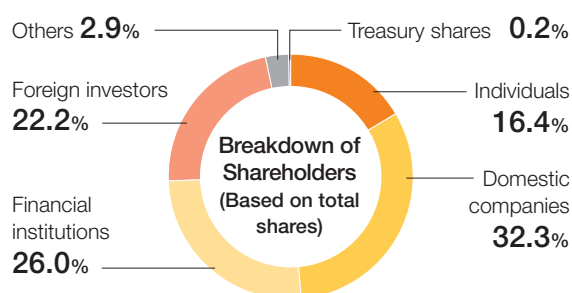
Major Operational Sites and Consolidated Subsidiaries

(As of December 31, 2021)

Head Office	2-18-4 Iidabashi, Chiyoda-ku, Tokyo	
Location	102-8573 TEL 03-3264-7111	
Local Area Sales Departments	Chuo Sales Dept. 1 Kanagawa Sales Dept. Tama Sales Dept. Northern Kanto Sales Dept. Osaka Northern Sales Dept. Osaka Southern Sales Dept.	Chuo Sales Dept. 2 Josai Sales Dept. Johoku Sales Dept. Keiyo Sales Dept.
Regional Offices	Sapporo Branch Utsunomiya Branch Tsukuba Branch Kyoto Branch Hiroshima Branch	Sendai Branch Takasaki Branch Chubu Branch Kobe Branch Kyushu Branch
Consolidated Subsidiaries	OSK Co., Ltd. Network Corporation Alpha Techno Co., Ltd. Alpha Net Co., Ltd.	

Stock Information (As of December 31, 2021)

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



Major Shareholders

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

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

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

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Evaluation by external organizations

MSCI ESG Leaders Index

OTSUKA CORPORATION has been included as a constituent of the "MSCI Japan Country ESG Leaders Index" provided by MSCI Inc.

CDP

OTSUKA CORPORATION submitted a response to CDP Climate Change Questionnaire for the first time in 2021. In December 2021, we received feedback with a score of "C."



DX certified operators

OTSUKA CORPORATION was certified as a DX business operator under the DX Certification Initiative established by the Ministry of Economy, Trade and Industry of Japan in April 2021.



Eruboshi certification

OTSUKA CORPORATION was awarded "Eruboshi" certification by the Minister of Health, Labour and Welfare, as an excellent company working on initiatives to promote the advancement of female employees in the workplace. (Awarded the highest rating of 3 L-stars)



OTSUKA CORPORATION

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