

Otsuka Corporation

**20
23**

OTSUKA CORPORATION

Integrated Report 2023

Advancing IT solutions
with our customers in mind

Founding Spirit

Create a company where employees are happy, employees are proud to work, and employees are appreciated by their families.

OTSUKA CORPORATION began in Akihabara, Tokyo in July 1961. The aim of our founder, Minoru Otsuka was to “create a company where employees are happy, employees are proud to work, and employees are appreciated by their families.”

These words, which are the founding spirit of the Company, are imbued with the founder’s belief that enhancing employee satisfaction leads to the satisfaction of customers and partners, and to the happiness of those around us.

Service is the key factor in business success / The customer first

These are the basic principles that could be described as the DNA of OTSUKA CORPORATION. They are the values that could be considered as the starting point of our business model. If all we did was sell copiers, our customers would not be able to continue their business when they run out of toner and copy paper. Maintenance services in the event of breakdowns are also essential. Our stance has always been not only to sell products, but also to consider our customers first and to continue doing business with an unbroken connection, staying close to our customers.

Consistently reinforcing this approach has led to what we consider to be OTSUKA CORPORATION’s most distinctive characteristics, namely our “multi-vendor & multi-field” and “one-stop solutions & one-stop support.”

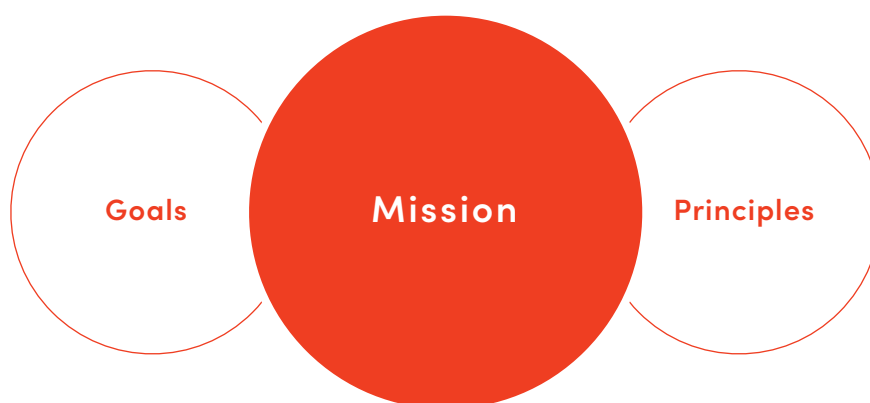
Mission Statement

In 2001, with the appointment of the current President & Chief Executive Officer of the Company, Yuji Otsuka, the Company embarked on the establishment of its mission statement, perhaps best described as the “Constitution” of OTSUKA CORPORATION, and announced it in 2003. This mission statement represents an internal and external declaration of our social role, responsibility and raison d’être in terms of our mission, goals and principles for daily activities.

With the Mission Statement as our commitment to our customers, partners, shareholders, employees, and society, OTSUKA CORPORATION will continue to move toward the realization of our mission statement.

Mission

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



Goals

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

Principles

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

TOP MESSAGE



Yuji Otsuka

President & Chief Executive Officer

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

Outcomes of the fiscal year ended December 31, 2022

Company reform aimed at “supporting the entire office of our customers” is gradually taking hold

The year 2022 was a year in which we launched a variety of initiatives aimed at a new stage of growth. I am delighted to see the outcomes of those efforts gradually starting to appear in the figures, resulting in the achievement of our targets for both revenue and profit. A particularly noteworthy factor in that success was our ability to overcome extraordinary circumstances, such as the change in the accounting standards and the reactionary decline in special demand from the GIGA School project, which allowed us to achieve revenue growth.

COVID-19 has brought significant changes to the market environment, and we can no longer survive merely by relying on the successes of the past. In 2021, despite securing growth in both revenue and profit, we were unable to meet our targets and expectations. I personally approached 2022 with trepidation, concerned that our growth would come to a halt.

To dispel that feeling of hopelessness, I explained to all our employees at the New Year's morning assembly that OTSUKA CORPORATION must change. I also sent everyone an e-mail that presented my renewed commitment to make OTSUKA CORPORATION a company that offers job satisfaction, along with specific measures and schedules for meeting that commitment. With such an unusual start to the year, I believe that our employees could understand the degree of earnestness in this regard.

In our [business results in 2022](#)¹, despite a negative start in the first quarter due to the strong impact of GIGA compared to the same period last year, revenue and profit increased

for the next three quarters in succession, and the rate of that increase also grew with each quarter. [“Additional orders” and “rate of change in sales \(per account\)”](#)² both of which I consider to be important indicators of the progress of our strategy, also outperformed the previous year from April onward, reaching particularly high levels at the end of the year. While these results were partly due to market conditions, with the recovery of the supply chain resolving goods shortages, they were also helped by the easing of pandemic restrictions on people's movements spurring on sales activities based on face-to-face customer visits, which is a strength of OTSUKA CORPORATION. I also feel that our initiatives to [“support the entire office of our customers”](#)³ have gradually started to take hold.

OTSUKA CORPORATION has more than 9,000 employees on a consolidated basis. In implementing initiatives, attempting to change everything at once would only lead to unnecessary confusion, and OTSUKA CORPORATION will not change if we were to start before our employees were sufficiently convinced. More than anything, it would inconvenience our customers. In 2022, we launched [management reforms](#)⁴, including a new evaluation system to further promote “support the entire office of our customers.” We plan to introduce a sales manager promotion system in July 2023. We will continue steadily and patiently on our path toward evolution, to ensure that each and every employee is able to fully understand the “supporting the entire office of our customers” concept.

1 Review of 2022 Business Results ▶ P.34

2 Maintenance and Expansion of the Customer Base ▶ P.53

3 Support the Entire Office of Our Customers ▶ P.23-33

4 Management reforms ▶ P.39



Strengthening of human capital

Realize a sustainable personnel structure and support employees' self-realization

Another of our focus efforts in 2022 was the strengthening and enhancement of our human capital.

The founding spirit⁵ of OTSUKA CORPORATION, "To create a company where employees are happy, employees are proud to work, and employees are appreciated by their families," has been inherited by our mission statement⁶. We have implemented a variety of initiatives to realize that statement by replacing old initiatives that no longer have any substance with new, stronger ones. Employee satisfaction is an important factor for our work to make customers happy. As an executive manager, however, I also have a responsibility to pursue the sustainable enhancement of corporate value. While looking at the whole picture, I remain conscious of working to increase employee satisfaction, while at the same time, striving to improve management efficiency.

The values held by our employees are also becoming increasingly diverse. As personal connections have weakened due to COVID-19, conventional management is no longer adequate. It is urgent that we build mechanisms to suit the new era that will enable us to achieve both well-being and improvement of engagement⁷ and the enhancement of corporate value. Several years ago, we commenced test operations of AI Happiness⁸, an AI tool that visualizes happiness levels, here at OTSUKA CORPORATION. We plan to roll this tool out across the entire company in 2023. As this tool can be used not only for business operations but also for connections among employees, we can expect it to energize

communication and enhance employees' motivation. It will also help us, as a company, to understand the status of organizations and individuals earlier, enabling us to provide the necessary follow-up.

We have also been conducting a review of salary levels⁹ since 2022. Salary levels at OTSUKA CORPORATION are not low by any means. We introduced initiatives such as performance-linked bonuses some time ago to give employees a sense of the company's growth. Even so, salary growth has been limited in the last ten years or so, and there was a significant gap between the rate of salary growth and the rates of increase in profit and dividends. For this reason, we have implemented various measures that will lead to an increase in the labor share of income¹⁰. For example, in July 2022, we were one of the first companies to implement an across-the-board raise of ¥10,000 in the basic salary for all employees. We viewed this as a necessary investment to maintain good relationships between the company and the employees and to enhance future corporate value. As a whole, these initiatives resulted in an increase in total wages (non-consolidated: selling, general and administrative expenses and cost of sales) of approximately ¥3.1 billion in 2022 (up 7.4% from the previous year). This had an impact on operating profit. However, the Company has absorbed that impact and has continued its growth in both revenue and profit since 2Q. I believe that this was a decision that we had to make also in terms of protecting our employees against the sharp rises in the cost of living.

Human resource development¹¹ is also crucial. The cost of training per full-time employee in 2022 was

¥107,000, a significant increase of 36.5% from the previous year. We will continue our reskilling initiatives and other various training programs to support our employees' self-realization. If we can improve productivity by strengthening human capital and

securing the top line, it will lead to higher profitability, including ROE. We will strive for long-term sustainable growth in corporate value by realizing a sustainable human resources structure.

OTSUKA CORPORATION's growth strategy

Further refine our unique business model by strengthening "one-stop solutions and one-stop support"

OTSUKA CORPORATION has a [business model](#)¹² that is rare even around the world, in that we handle almost every product that an office might need. Since we started out as a copier sales company in 1961, we have expanded our product range while meticulously responding to customers' needs. In this way, we have built up a unique customer base centered on small- and medium-sized enterprises (SMEs). Supported by our [approximately 2,400 partner companies](#)¹³, we strive to create value as an IT platformer dealing with [approximately 292,000 customer companies](#)¹⁴.

Several years ago, we began promoting the concept of "OTSUKA CORPORATION supports the entire office of our customers." This concept is both our growth strategy and the center of our [value creation model](#)¹⁵. Although OTSUKA CORPORATION has many customers, currently, [two thirds of those customers purchase only one kind of product](#)¹⁶ from us. We consider this to be a major issue. Considering the extensive range of products that we handle, it is obvious that we are still not making enough proposals that precisely meet our customers' needs. However, it is also an indication that OTSUKA CORPORATION still has [plenty of room to grow](#)¹⁷. We have reviewed our evaluation system and strengthened our human capital to solve this issue, and we are now placing efforts into the [promotion of AI-based sales activities](#)¹⁸ to further accelerate our support for the entire office of our customers.

As part of this approach, we launched a new initiative in 2019 in which AI recommends customers that our sales representatives should visit and the products with higher probability of winning orders from those customers. This initiative was initially introduced to support sales reps who did not know which customers to visit and who had trouble filling their schedules, and we have gradually accumulated

knowledge of its uses. Starting to sense that we could achieve a certain level of results with this AI-based approach in August 2022, we have since expanded the scope of its use. It now includes our top sales reps, who have previously not put AI to use in a significant way. AI suggests what products to recommend to customers from among our entire range, regardless of the strengths and weaknesses of individual sales representatives or which department's products they handle. This is why it is so compatible with the "support the entire office of our customers" concept, and it gives us new insights and suggestions based on changes in data that humans would have trouble identifying. Our aim is to improve the quality of our proposals to our customers through a cycle in which humans and AI learn each other's strengths.

We are also promoting the use of [AI pipelines](#)¹⁹ in our internal operations, linking multiple AIs with their respective individual strengths to enable more sophisticated analysis. We have even obtained a patent for the related business model. There are very few companies with this kind of multi-AI experience, so in that respect as well, I believe that OTSUKA CORPORATION's know-how will be a major strength.

We also continue to promote the [Otsuka Strategy II](#)²⁰, with the aim of forging new relationships with our customers. We have established three channels, adding online consultations (Web) and the call center (Center) to our traditional strength of face-to-face support ("Real" sales personnel), and we will have these three channels work in unison to offer customers the solutions to their problems from the most suitable channel. By further enhancing the one-stop solutions & one-stop support that have traditionally been our strengths, we will refine our unique business model even further.

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Toward a long-term, sustainable value creation cycle

Aim for simultaneous realization of economic value and social value by promoting sustainability management

OTSUKA CORPORATION summarized its mission, goals, and principles into a mission statement and announced it in 2003. 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 a [Sustainability Committee](#)²¹. We formulated various policies in 2022, including the Sustainability Basic Policy and Human Rights Policy, and identified nine [Materiality](#)²² issues in three groups.

One of those Materiality issues is "Response to climate change." On this topic, OTSUKA CORPORATION disclosed information in March 2023 in accordance with recommendations released by the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#)²³. OTSUKA CORPORATION started handling LED solutions at an early stage. One of the goals declared in our mission statement is "to demonstrate harmonious coexistence and growth with nature and society." We will respond firmly and squarely, [referring to a variety of opinions](#)²⁴ about what we can do and what we should do.

In terms of [governance](#)²⁵, we have disclosed a skill matrix that shows the diversity of experience and areas of expertise of the Board of Directors. The [advice and suggestions from different perspectives from those of the Company](#)²⁶ that we receive from our three Outside Directors help us to make new discoveries and change our thinking. In another governance-related development, we created the optional Nomination & Remuneration Committee in March 2022. Lively discussions on compensation systems for Directors and succession planning have taken place in this committee. The OTSUKA Leader's College is run for the development of next-generation executive personnel. The members who have participated in this initiative have grown to become Executive Officers, as the next candidates for Director. Regarding [DE&I](#)²⁷, in the five-year action plan for promotion of women's participation and advancement in the workplace that will start in 2023, we will set various targets, including for the percentage of female managers, and we will strive to enhance our systems, thereby balancing comfortable workplaces and job satisfaction.

OTSUKA CORPORATION values the concept of [coexistence and co-prosperity with our partners](#)²⁸ for the promotion of sustainability management. It is important that our partners and OTSUKA CORPORATION work together to create more value than each could achieve alone and to make better use of social capital. In April 2022, OTSUKA CORPORATION formed a capital and business alliance with [dotData, Inc.](#)²⁹ a company that has strengths in AI solutions. While large corporations are taking the lead in the use of AI in Japan, through our alliance with dotData, Inc., we are working on a joint project to develop AI solutions that are accessible to SMEs, a customer segment in which OTSUKA CORPORATION has strengths.

We have formulated our [Sustainable Procurement Guidelines](#)³⁰ to balance economic value and social value and, as a first step, we have started communicating with our major partners. We are just getting started, but we will move these activities forward step by step to build a long-term, sustainable value creation cycle.

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.

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Otsuka Corporation

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To our stakeholders**Promoting DX at SMEs is our mission.****We will grow with customers and realize the Mission Statement.**

Since becoming listed on the First Section (now the Prime Market) of the Tokyo Stock Exchange in 2000, OTSUKA CORPORATION has continued to grow steadily by increasing its productivity using IT. This achievement is based on the **Otsuka Strategy**³¹, which started full operation in 1998, and **SPR**³², with which we have realized a scientific sales style. If we compare 1998 and 2022, net sales and operating profit per employee have expanded by 2.2 times and 20.1 times respectively. With the Otsuka Strategy, we successfully achieved data-driven corporate management with mechanisms and structures, without increasing our staff numbers. This is precisely the DX (digital transformation) that many companies are working on now.

There are many issues for companies in Japan to address, such as the Revised Act Concerning Preservation Methods for Books and Documents Related to National Tax Prepared by Means of Computers and the invoice system. All companies are being called on to transform in order to survive or to seize new opportunities. Such transformations include revising their earnings structure in response to the changing environment and developing new businesses. SMEs in particular, still have a long way to go with the

digital shift, and these issues are not something that they can avoid.

Some 80% of our customers are SMEs with annual sales of less than ¥1.0 billion. As declared in our mission statement, providing support for customers with the use of information and telecommunication technologies is our mission, and supporting the promotion of DX at SMEs, which could be considered a social issue facing Japan, is our raison d'être. The digital shift trend has only just begun, and the markets related to this trend will be enormous. We believe that, by helping to energize SMEs in Japan, we will contribute to Japanese economy, which in turn will lead to the realization of our mission statement. For us to accomplish this mission, we ourselves must continue to grow together with our customers. We will continue to take on challenges to make further leaps forward. I hope you will look forward to OTSUKA CORPORATION's future growth.



Editing policies

OTSUKA CORPORATION has a business model that is rare even around the world, in that we handle almost every product that an office might need.

By further evolving this business model that can solve customers' problems through the support of their entire office, OTSUKA CORPORATION will continue to contribute to a sustainable society.

This Integrated Report summarizes OTSUKA CORPORATION's initiatives to enhance its corporate value over the medium to long term, including its management strategy, financial information, and ESG information. By showing these initiatives as our growth stories centered on "supporting the entire office of our customers," we hope that more stakeholders will gain an understanding of our corporate activities toward the realization of our Mission Statement.

Reported period of activities

From January 1 to December 31, 2022

- To report the latest situation, the Report contains information on activities carried out after the reported period.
- "Fiscal 2022" and "fiscal year ended December 31, 2022" in this Integrated Report mean the period from January 1 to December 31, 2022, unless otherwise stated.

Guidelines used as reference

- International Integrated Reporting Framework by International Integrated Reporting Council (IIRC)
- The Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation by the Ministry of Economy, Trade and Industry
- The GRI Standards by the Global Reporting Initiative (GRI)

Notes on forward-looking statements

The forecasts, plans, and outlooks concerning future business results in this Integrated 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.



HIGHLIGHT



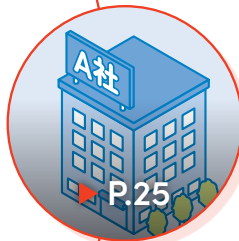
President's Message

Yuji Otsuka, President & Chief Executive Officer, describes the strategy of OTSUKA CORPORATION toward a new stage of growth, focusing on "strengthening human capital," and "strengthening the business model (supporting the entire office of our customers)."



OTSUKA CORPORATION Supports the Entire Office of Our Customers

The products and services OTSUKA CORPORATION actually provides are depicted in a drawing of a typical customer's office for an easier understanding of how we support the entire office.



The Story of Company A

The story of manufacturing company A is presented with simple illustrations, where Company A's problems are solved with the support of OTSUKA CORPORATION.



Dialogue on Sustainability

Mr. Keiichi Ushijima, EY Japan Climate Change and Sustainability Services (CCaSS) Leader, was invited to engage in a dialogue with Managing Officer Koichi Hisano on the initiatives of OTSUKA CORPORATION on climate change. Mr. Ushijima gave us his candid opinion from the perspective of a sustainability expert.



Roundtable Discussion among Outside Directors

The roundtable discussion among Outside Directors Jiro Makino, Tetsuo Saito, and Makiko Hamabe cover OTSUKA CORPORATION's governance as well as management themes such as sustainability and the direction of growth over the medium to long term.

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Value Creation Model

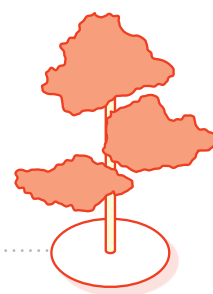
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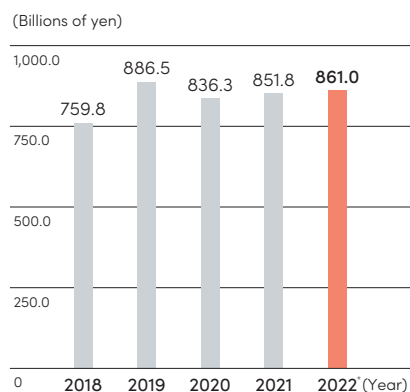


Financial and Non-Financial Highlights

Financial Information

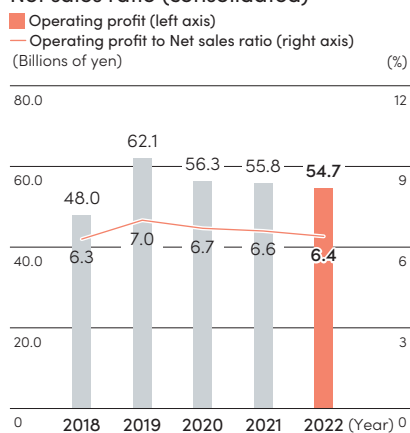
Financial results

Net sales (consolidated)

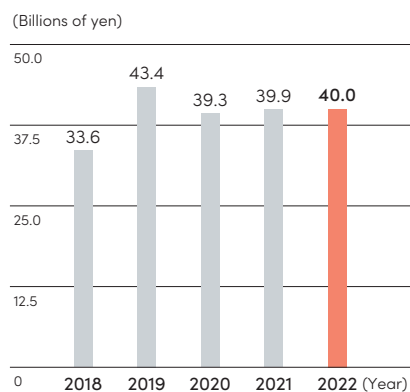


*The Company has applied the "Accounting Standard for Revenue Recognition" since fiscal 2022.

Operating profit/ Operating profit to Net sales ratio (consolidated)

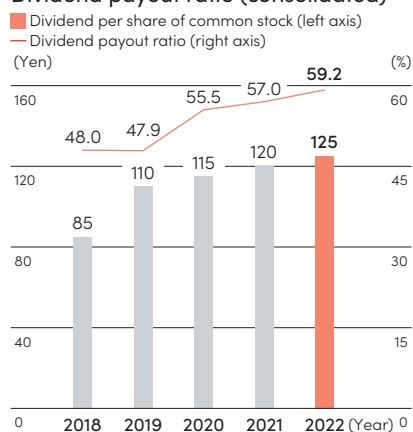


Profit attributable to owners of parent (consolidated)

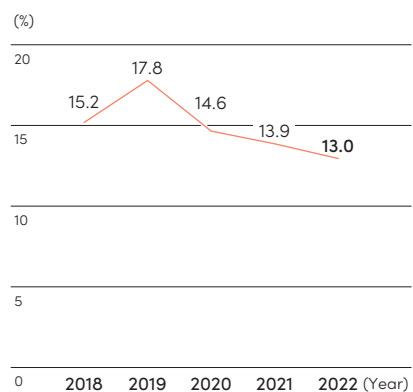


Shareholder return/ Cash flows

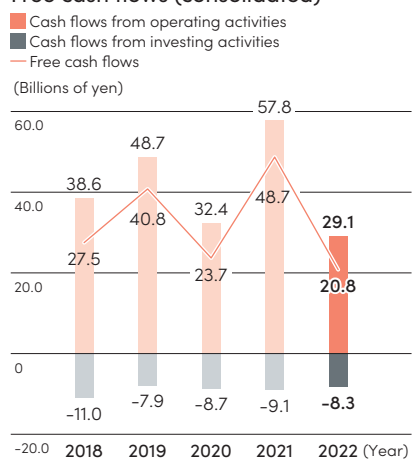
Dividend per share of common stock/ Dividend payout ratio (consolidated)



ROE (consolidated)



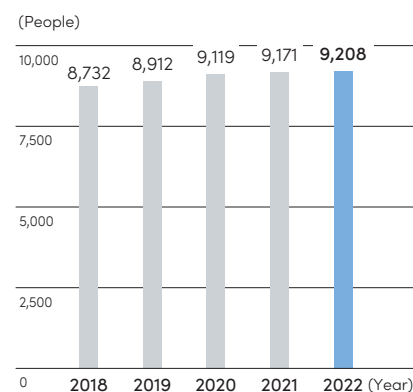
Free cash flows (consolidated)



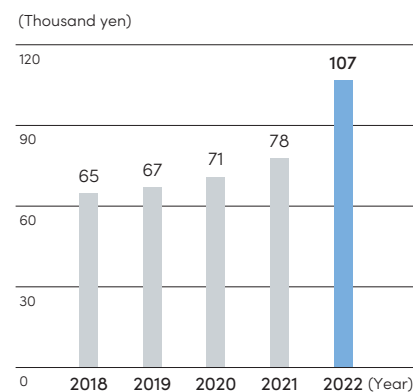
Non-Financial Information

Human capital (employee information)

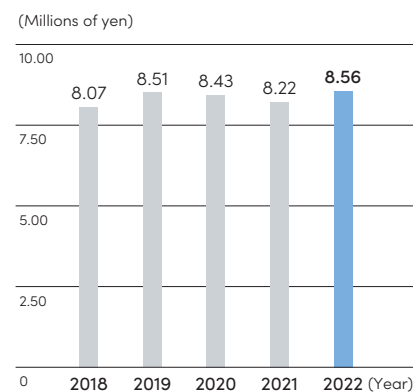
Number of full-time employees (consolidated)



Training costs per employee (non-consolidated)



Average annual salary (non-consolidated)

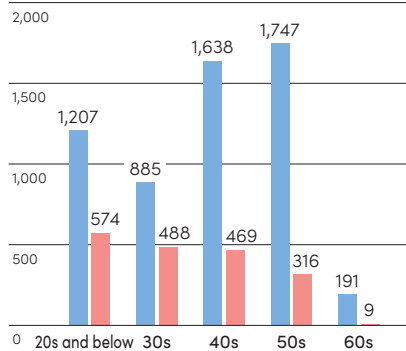


● Human capital (DE&I)

Number of full-time employees by age group and by gender (non-consolidated)

■ Men ■ Women

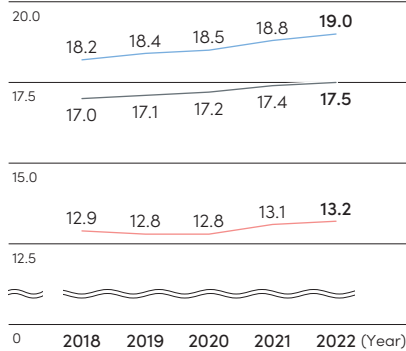
(People) As of the end of December 2022



Average years of service (non-consolidated)

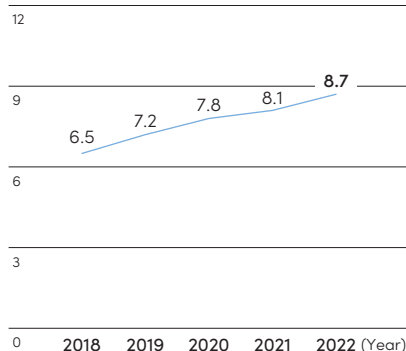
— Men — Women — Overall average

(Years)



Percentage of female managers (non-consolidated)

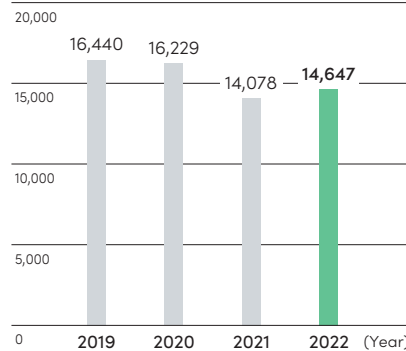
(%)



● Environment

Scope 1 and 2 CO₂ emissions* (non-consolidated)

(Tons)

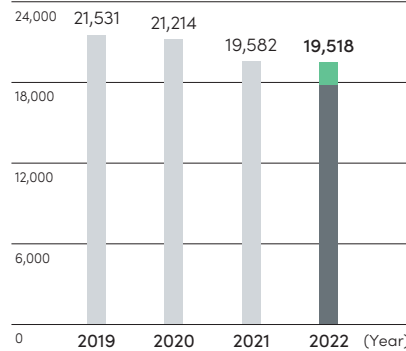


*Scope 2 CO₂ emissions are market-based emissions.

Electricity consumption (non-consolidated)

■ Conventional power ■ Renewable power

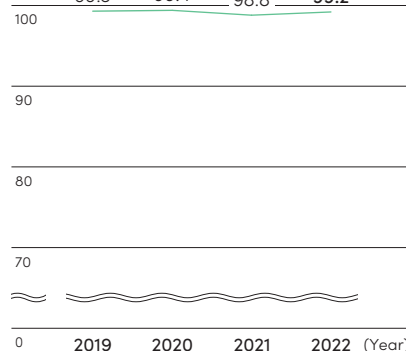
(mWh)



*The Company's head office building has switched to renewable energy sources since fiscal 2022.

Recycling rate (non-consolidated)

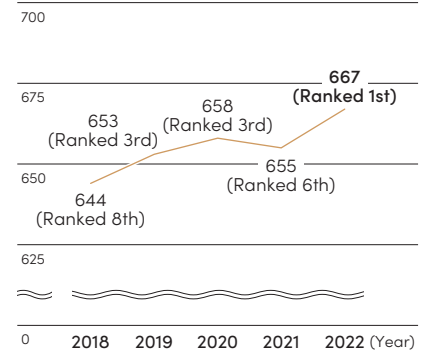
(%)



● Customer satisfaction

J.D. Power Japan customer satisfaction survey of corporate mail-order service

(Points)



J.D. Power 2022 Japan customer satisfaction survey of call center for corporate technical support



NIKKEI COMPUTER, September 1, 2022 Issue 2022-2023 Customer Satisfaction Survey



Management History

History of OTSUKA CORPORATION, continuing to evolve, responding to the needs of our customers and changes in society while dedicating itself to the “Pursuit of Customer Satisfaction” since its founding

The history of OTSUKA CORPORATION began in 1961, with the sales of copiers. We have expanded our business domains to a wide variety of products and services while listening to our customers’ voices. By combining those products and services to propose the optimal solutions, we have supported the growth of many customers.

We will continue to achieve sustainable growth with all of our stakeholders by staying close to our customers and constantly creating business models that meet the needs of the times.

From 1961

Establishment

Business started with the sale of copiers to SMEs. Built a customer base by leveraging characteristics of copiers that require supplies and maintenance.

From 1970

Expansion of business domains

Expanded our business domains by increasing the number of products we handle to meet customer needs and the changing office environment. Strengthened relationship with our customers.

From 1980

Expansion of business scale

Entered the market catering to large- and medium-sized companies with enhanced products and services. With the expansion of customer base, expanded business scale as a general trading company of office automation products.

From 1990

Restructuring of management base

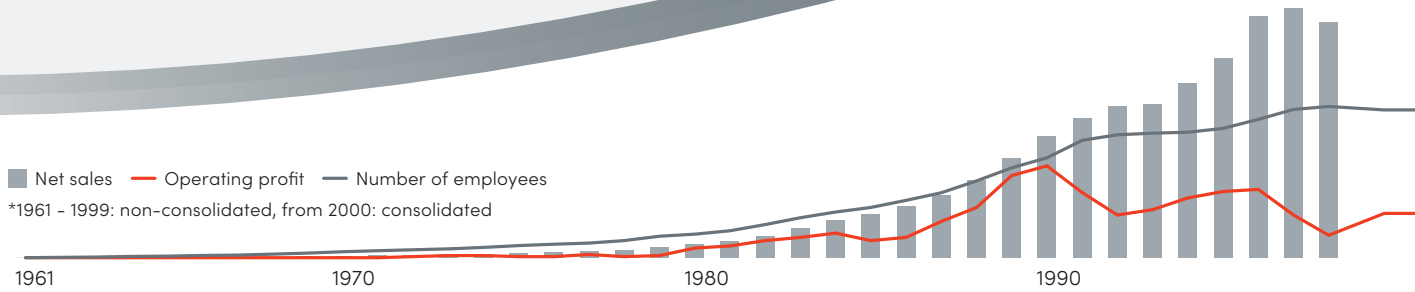
Launched “Otsuka Strategy,”^① an IT-based management structure reform. Restructured our management base to increase productivity and improve our financial standing without increasing the number of employees.

① Otsuka Strategy and SPR ▶ P.45

Started in 1993. Commenced full-scale operation in 1998

DX1 Otsuka Strategy

IT-based management structure reform



Development of the Company's business domain expansion

1961 copiers, supplies, and maintenance	1970 Office computer	1973 FAX	1979 Core system	1981 Personal computer	1987 Network	1990 Total a Service (currently “tayloreru”)	1995 Internet business
	1968 Electronic calculator			1982 School			1996 Security management business

OTSUKA CORPORATION, engaging in copier business → OTSUKA CORPORATION, engaging in COF (Copier, Office computer, Facsimile) business → OTSUKA CORPORATION, engaging in OA (Office Automation) business → OTSUKA CORPORATION, engaging in SI (System Integration) business

From 2020

Toward a new stage of growth

Supporting the entire office^③ of our customers by promoting AI utilization. OTSUKA CORPORATION continues to get close to and grow together with our customers.

③ OTSUKA CORPORATION Supports the Entire Office of Our Customers ▶ P.23

From 2010

Productivity improvement

Improved productivity through community-based operations. Promoted "Otsuka Strategy II^②" with the three channels Real (sales personnel), Web, and Call Center working in unison. Aimed to forge new relationships with customers.

② Otsuka Strategy II ▶ P.51

From 2000

Achievement of a scientific sales style

Introduced of uniquely developed sales tool "SPR^①." Achieved a scientific sales style by utilizing information assets obtained through Otsuka Strategy. Our financial position improved by profit growth.

① Otsuka Strategy and SPR ▶ P.45

Introduced in 2001. Commenced full-scale operation in 2003

DX2

SPR

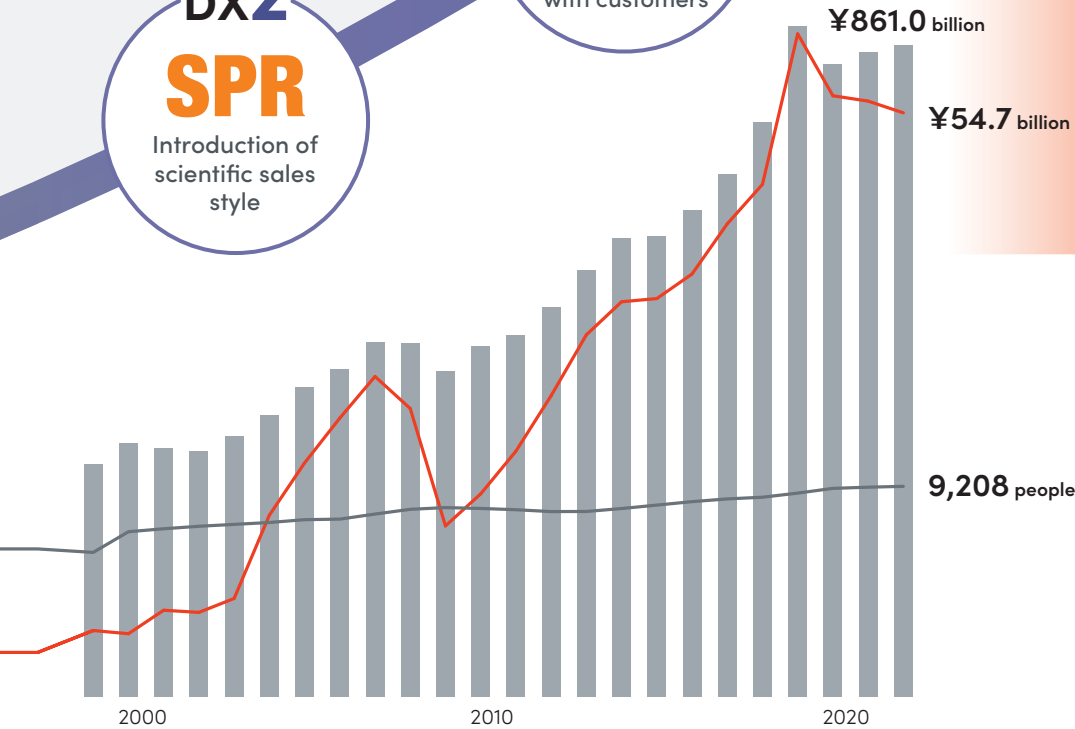
Introduction of scientific sales style

DX3 Promoting utilization



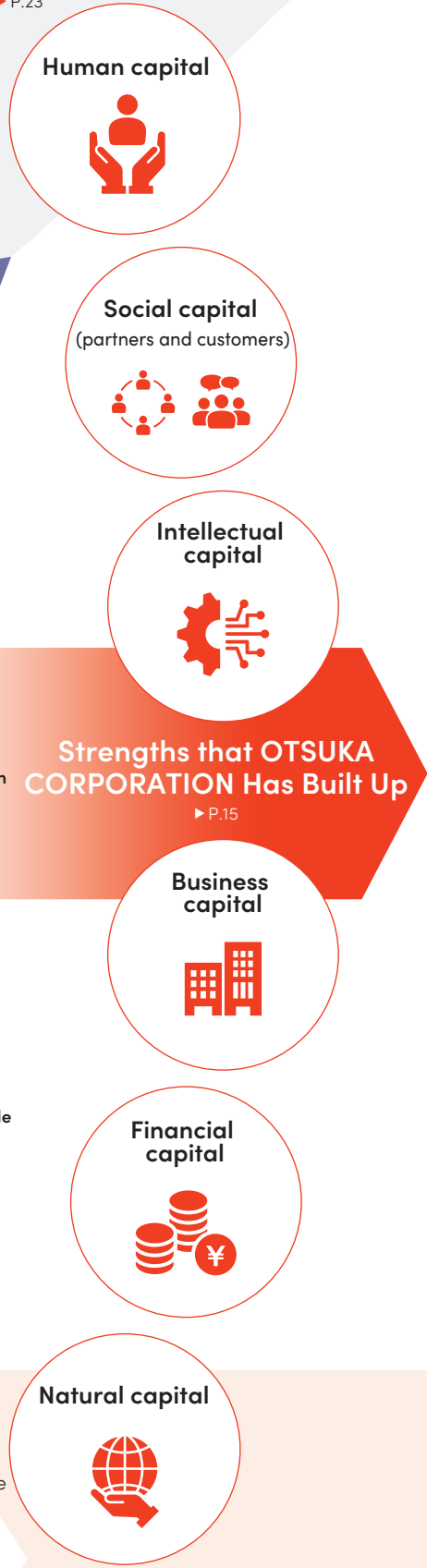
Otsuka Strategy II

Forging new relationships with customers



Strengths that OTSUKA CORPORATION Has Built Up

▶ P.15



1999 "fanomail"

2006 "tayoreru"
2008 LED

2018 AI and IoT

2019 Electronic contracts
2020 Support for teleworking

2021 Integrated DX package

▶ **OTSUKA CORPORATION, a company with technology and proven track record** ▶

Energize Your Office with IT ▶

▶ **To bring DX that is for you**

Capital (Strengths that OTSUKA CORPORATION Has Built Up)

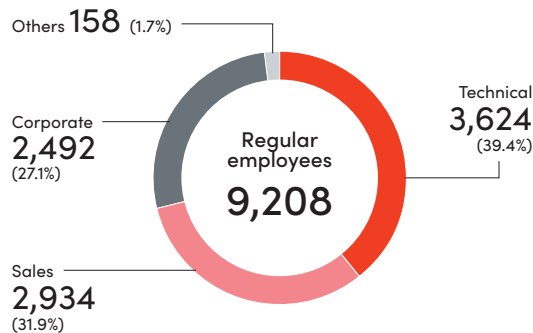
In the history of evolution since its founding, OTSUKA CORPORATION has accumulated a great deal of capital. The accumulated capital has contributed to productivity improvement, one of OTSUKA CORPORATION's characteristics. In addition, continuously refining each type of capital by leveraging the financial capital obtained has enabled us to strengthen our unique business models.

Human capital

The number of consolidated full-time employees as of December 31, 2022 was 9,208, an increase of 37 (+0.4%) 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.

Composition of full-time employees by job type (consolidated)

(As of the end of December 2022)



- Improvement of Employee Engagement ▶P.39
- Promotion of Diversity, Equity, and Inclusion ▶P.41
- Human Resource Development ▶P.43

Improving labor share of income

Various measures have been implemented since January 2022 ▶P.40

Social capital

Approximately 292,000 customer companies with transactions during the year ▶P.53

OTSUKA CORPORATION is supported by many customers, from companies large and small. In addition, we share with society the know-how gained through business with our customers in a variety of industries.

By annual sales Percentage share in net sales

(for the year ended December 31, 2022)

Less than ¥1.0 billion of yen 20.75% ¥1.0 billion to less than ¥10.0 billion of yen 27.65% ¥10.0 billion of yen and above 51.60%



By annual sales Percentage share in number of customer companies

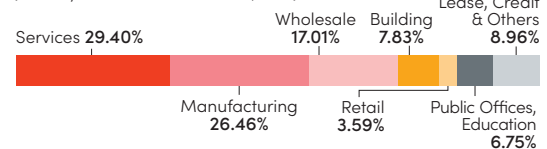
(for the year ended December 31, 2022)

Less than ¥1.0 billion of yen 79.31% ¥1.0 billion to less than ¥10.0 billion of yen 16.64% ¥10.0 billion of yen and above 4.05%



By industry Percentage share in net sales

(for the year ended December 31, 2022)



Approximately 2,400 partners ▶P.31

By combining superior products, services, and technologies of various fields, we realize our unique solutions.

Strengthen cooperation with partners

Acquired shares of RO Holdings, Co., Ltd. in 2018 (to strengthen logistics functions)

Concluded capital and business alliance agreement with dotData, Inc. in 2022 (to strengthen AI solutions)

At the end of 2000 First year of listing

At the end of 2022

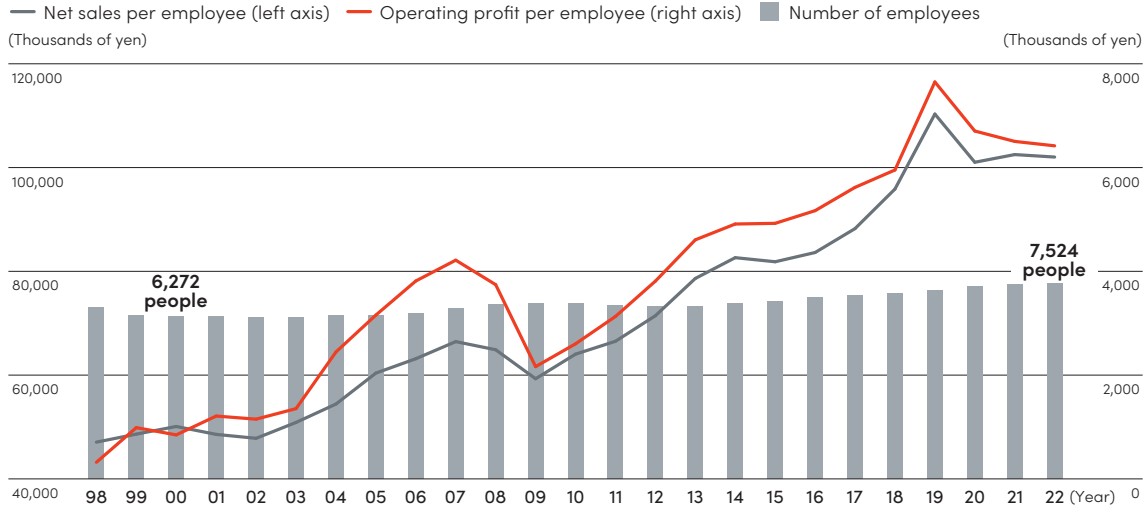
Equity	¥51.1 billion	▶	¥319.3 billion
Equity ratio	30.5%	▶	61.1%
Net cash	¥(42.1) billion	▶	+¥194.8 billion

Message from the CFO
▶P.34

Financial

Initiatives for natural capital Dialogue on Sustainability ▶P.55 / Reporting in Line with the TCFD Recommendations ▶P.59 / Environment ▶P.62

Workforce and productivity (non-consolidated)



Intellectual capital

OTSUKA CORPORATION continues to accumulate information obtained from a wide variety of customer contacts, and 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 strengthened the promotion of AI-based sales activities since 2019, and will expand the scope of its usage in the future.

Accumulation and utilization of data from business negotiations

Approx. **3.3** million per year
Cumulative total of approx. **50** million

Promote AI utilization

- OTSUKA big data ▶ P.46
- Promotion of AI-based Sales Activities ▶ P.47
- AI Pipelines (AI business model patents) ▶ P.49
- Joint Development of Solutions ▶ P.50

Investment in software: approx. **¥86.0 billion**
(Cumulative cash flow since listing)

Business capital

OTSUKA CORPORATION has built up a lot of business capital to establish a support system to promptly solve the problems of our customers and a logistics network to deliver what they need when they need it. We continue to further strengthen our business capital by utilizing the latest technologies including AI.

One of the largest technical contact centers in Japan

Number of monthly support requests:
Approx. **150,000**

Number of support staff: Approx. **600**

tayoreru Contact Center ▶ P.12 / P.18 / P.50

Logistics network

6 distribution centers
+
14 delivery centers

Yokohama Distribution Center ▶ P.64

280 support offices nationwide

Engineers at the closest support office assist our customers in collaboration with the contact center

Investment in property, plant, and equipment: approx. **¥77.0 billion**
(Cumulative cash flow since listing)

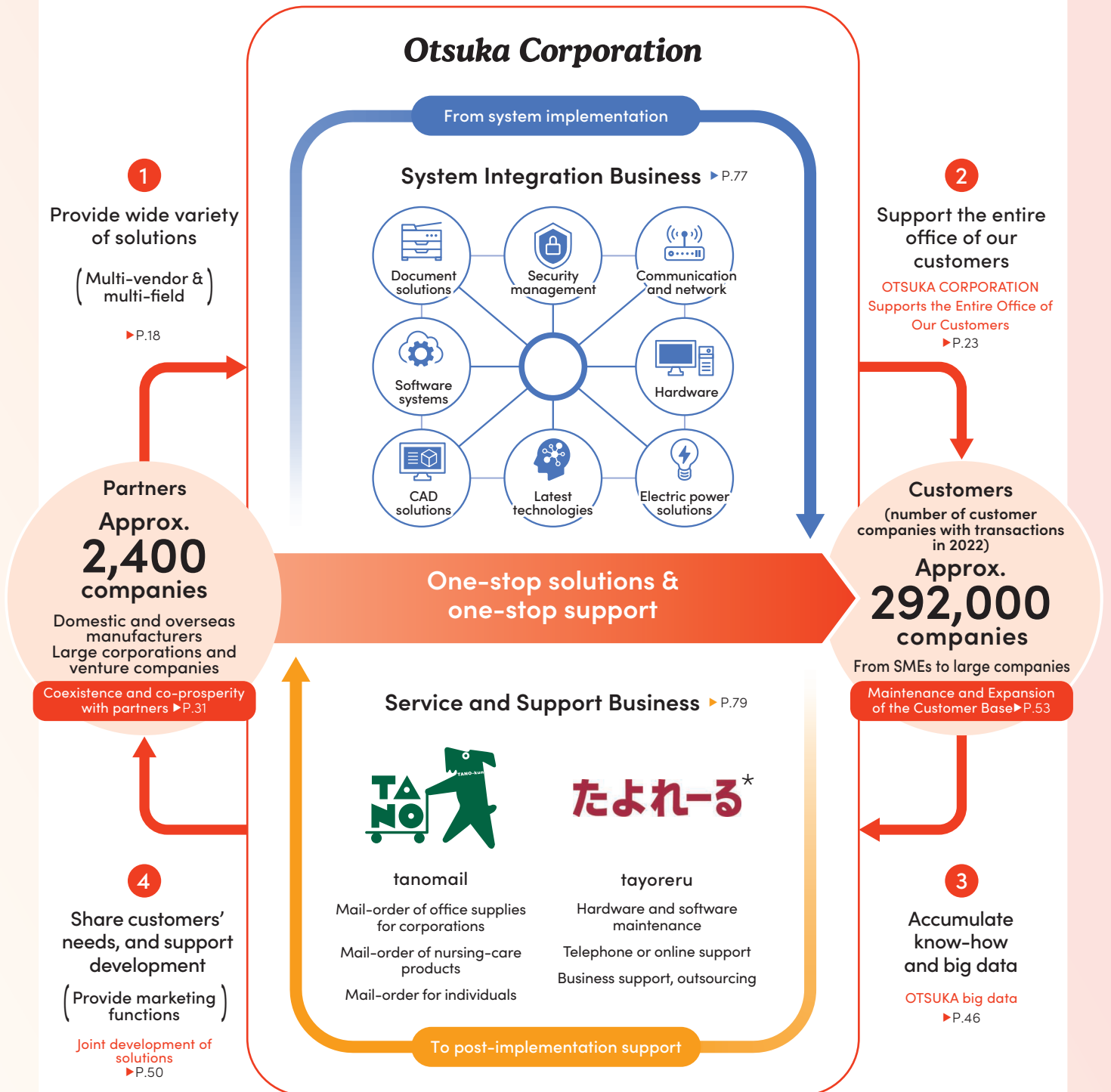
capital

OTSUKA CORPORATION's Business Models

We provide total solutions to problems facing our customers with one-stop solutions & one-stop support.

connects our partners and customers

IT platformer



* **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.

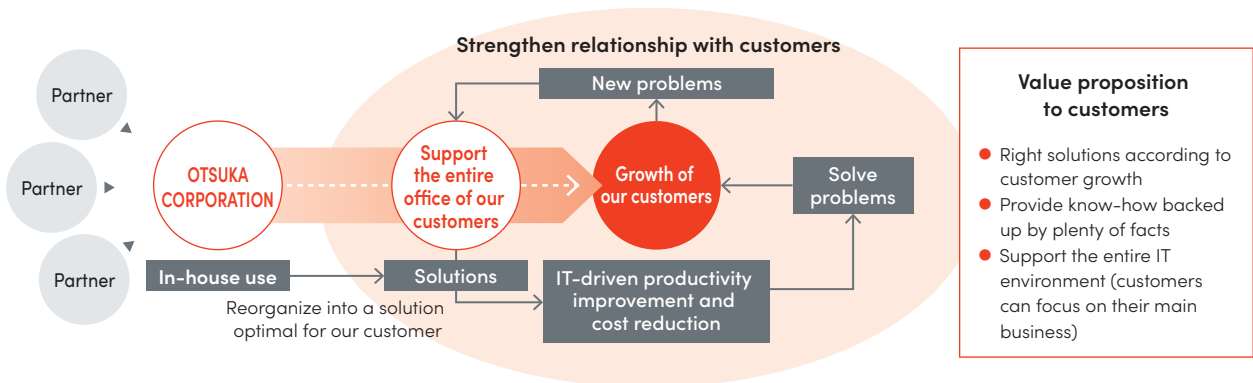
OTSUKA CORPORATION's strengths that enable one-stop solutions & one-stop support



Multi-vendor & multi-field

With increasingly sophisticated office operations embracing the use of IT, it is difficult to solve problems of our customers by simply providing a single product or service. OTSUKA CORPORATION continues to expand its business domains and support customers by promoting a “multi-vendor” approach in which we handle products from many vendors without being bound to specific manufacturers, and a “multi-field” approach in which we provide a wide range of

products and services from office supplies to IT equipment and IT services in general. We gain access to superior products, services, and technologies of various fields from many partners and use them ourselves. By combining our experiences into optimal solutions to solve each of our customers’ unique problems, we propose solutions that only OTSUKA CORPORATION can provide.



Ability to respond and support customers while staying close to them

OTSUKA CORPORATION solves its customers’ problems, from system implementation to post-implementation support.

We continue to strengthen human capital (P.39) to get close to our customers and improve our ability to respond and support our customers. In addition to our community-based operations, which is the origin of OTSUKA CORPORATION’s sales style, we continue to further evolve our business model by promoting Otsuka Strategy II that aims to create new relationships with our customers.



Field sales

Number of sales personnel:
Approx. **3,000**

On-site support

Number of engineers:
Approx. **3,000**

Number of support offices:
280 nationwide

Community-based operations

tayoreru Contact Center^{*1}

Number of monthly support requests:
Approx. **150,000**

Number of support staff:
Approx. **600**

Implementation of our services at Company A

Products of company ● Products of company ▲▲ Products of company ■■

From implementation to maintenance through a single point of contact

OTSUKA CORPORATION

Deliver what customers need when they need it **tanomail**

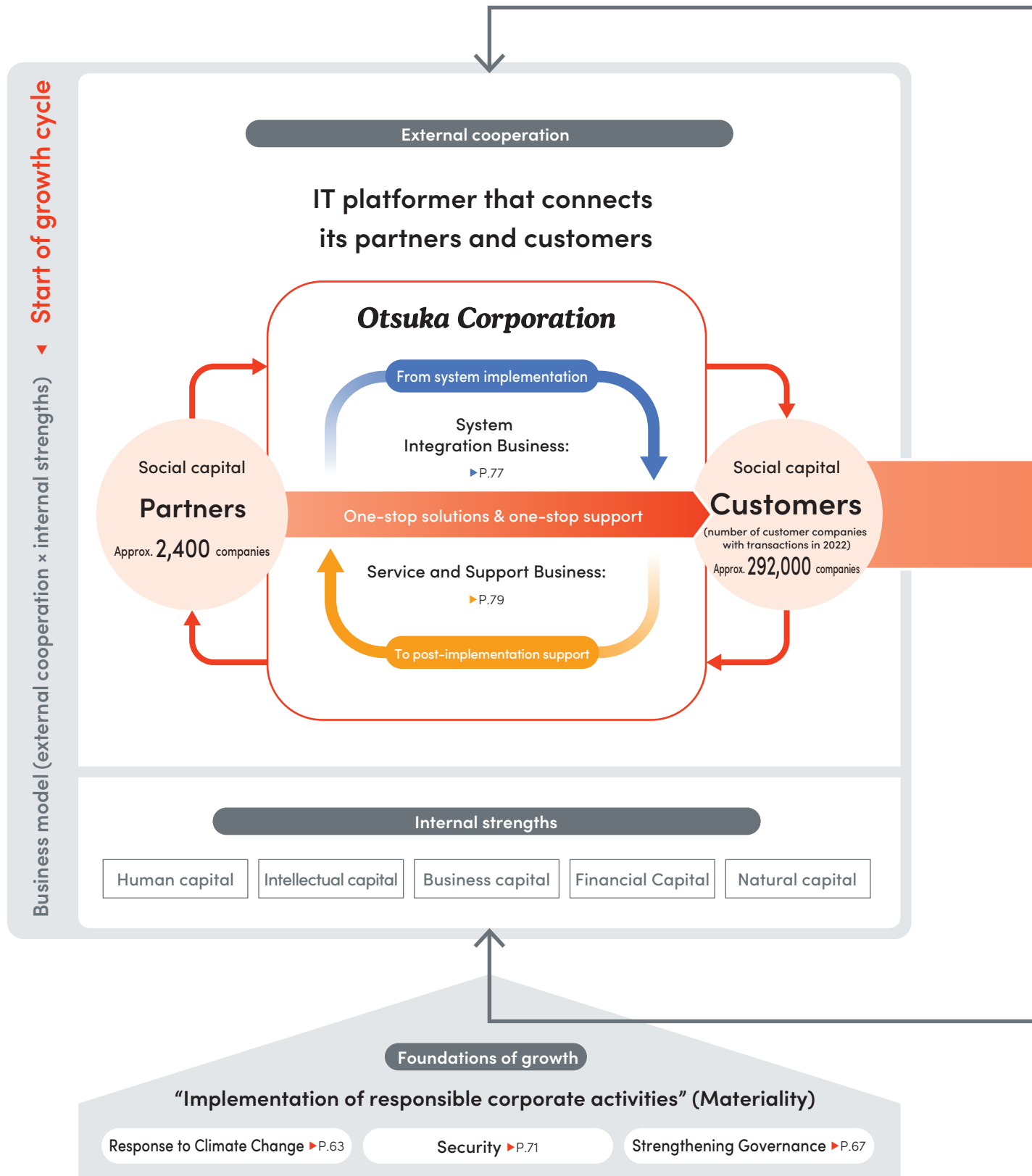
- Same-day or next-day delivery at the earliest
- Wide range of product lineup from copy paper to nursing-care products
- Earth-friendly and environmentally friendly merchandise

Ranked No.1^{*2}

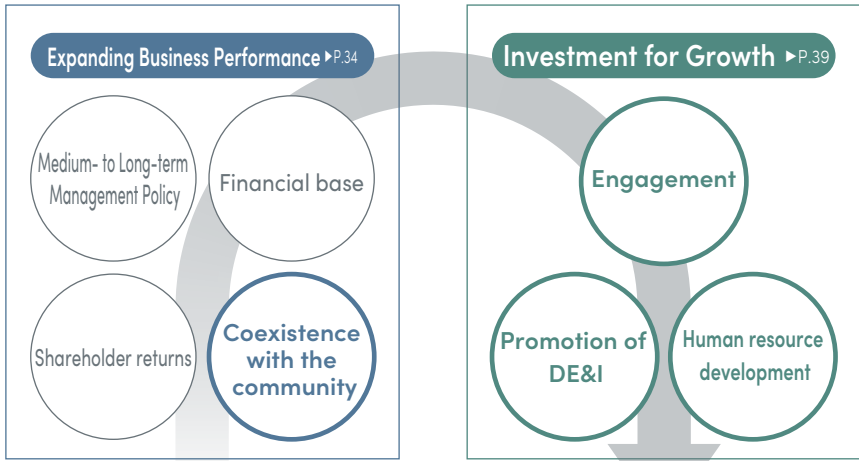
*1 Ranked No. 1 in the PC & tablet category and the copier & printer category of the 2022 customer satisfaction survey of call center for corporate technical support (conducted by J.D.Power Japan, Inc.)
 *2 Ranked No. 1 in the 2022 customer satisfaction survey of corporate mail-order service (conducted by J.D. Power Japan, Inc.)

Value Creation Model

For us to realize the Mission Statement by promoting the “support of the entire office of our customers,” we will continue to contribute to the sustainable growth of society.



Development of social capital ▶ Sustainable growth

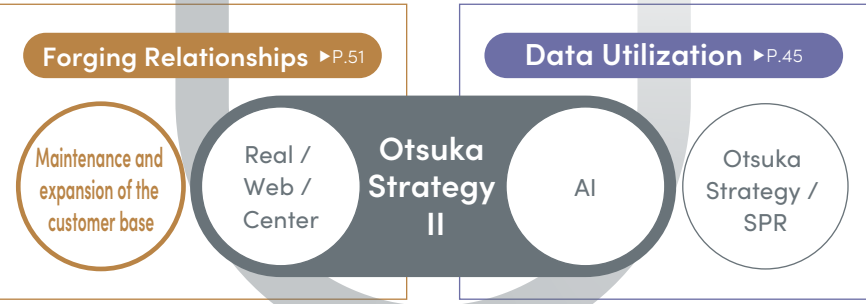


Trade-ons of economic, social and environmental values

Long-term sustainable customer base | **OTSUKA CORPORATION supports the entire office of our customers**

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

"Energize Your Office with IT" with multi-product transactions



* ○ Items in bold circles are Materiality issues

Re-investment in internal strengths ▶ Sustainable growth



Description of Value Creation Model

Support the entire office of our customers

“Support the entire office of our customers” is the starting point of our value creation cycle that aims to realize our mission statement. To solve all kinds of problems of our customers with the power of IT, OTSUKA CORPORATION has assembled a wide range of solutions that offices need.

By building relationships of trust with our partners and pursuing the development of internal systems, we continue to evolve our support of the entire office of our customers. Getting close to our customers and supporting their growth with one-stop solutions will lead to the expansion of OTSUKA CORPORATION’s business results.

Expanding business performance

Our community-based business model will create a virtuous cycle of mutual development between OTSUKA CORPORATION and the community. In addition, to be able to demonstrate our agility at any time even in an economic climate where the future is uncertain, we are working to strengthen our financial base, using the funds earned through expanded business performance.

As well as emphasizing stable shareholder returns in line with our business results, we will further enhance growth investments that will lead to productivity improvements. Thus, we will realize long-term sustainable growth while maintaining a balance among stakeholders.

Investment for growth

When our employees grow and OTSUKA CORPORATION grows, we will be able to enhance our support for our customers’ growth.

The growth and self-realization of our employees is one of the goals of our mission statement. OTSUKA CORPORATION is strengthening its human resource development and supporting its employees’ self-realization, so that each of them can always think and act for themselves from the customer’s point of view. Further, along with improving the labor share of income, we will work to ensure competitiveness in the digital age, through initiatives such as recruiting people with a high degree of specialization in AI and assisting our employees to obtain advanced AI qualifications.

Related Materiality Issues

- Coexistence and co-prosperity with partners
- Coexistence with the community
- Improvement of employee engagement
- Promotion of DE&I
- Human resource development

Materiality Issues for the Realization of Our Mission Statement

Materiality		Value creation by promoting “support for the entire office of our customers”			
		Creation of business value (Contribution to the growth of OTSUKA CORPORATION)	Creation of social value (Solving social issues)	Value creation for stakeholders (Relevance to stakeholders)	
Value creation through business activities	(1) Maintenance and expansion of the customer base	P.53	Know-how gained and data accumulated from transactions with many customers will be the wellspring that increases the added value of OTSUKA CORPORATION	Play a central role in resolving labor and personnel shortages by supporting our many customers in embracing the use of IT and promoting DX	Customers: Will be able to receive know-how backed up by plenty of facts
	(2) Coexistence and co-prosperity with partners	P.31	Able to propose optimal solutions for the customer from many excellent products, services, and technologies in various fields	Through cooperation with a wide range of partners, realize stable supply in the event of an emergency, helping many companies continue their business	Partners: Able to realize efficient marketing by sharing customers’ needs
	(3) Coexistence with the community	P.38	Deepen understanding of our customers by identifying the characteristics of trading areas that vary from region to region while pursuing efficient business activities based in the community	Contribute to the alleviation of economic disparity between regions	Customers: Able to focus on their main business (achieve both productivity improvements and cost reductions) by receiving swift support that is based in the community
Support for employee growth and self-fulfillment	(4) Improvement of employee engagement	P.39	Realize a sustainable human resources framework in which employee satisfaction leads to enhancement of corporate value	Curb diseconomies in the labor market by attracting an adequate workforce and retaining them	Employees: Working for OTSUKA CORPORATION will lead to self-realization and a sense of reward in the work, giving them a sense of fulfillment and achievement
	(5) Promotion of diversity, equity and inclusion	P.41	Respond precisely to increasingly complex customer needs by attracting and retaining a diverse workforce that will lead to greater ingenuity and flexibility	Contribute to the creation of new innovation by having diverse personnel participate in society	Employees: Psychological safety will improve, and broadened perspectives and changed awareness resulting from contact with diverse others will lead to new growth opportunities
	(6) Human resource development	P.43	Maximized performance by assigning the appropriate advanced personnel the appropriate positions will contribute to the enhancement of corporate value	Will become a dependable presence for mid-ranking companies and SMEs struggling with labor and personnel shortages	Employees: Able to develop their careers and find a place for self-realization through continuous learning of expert knowledge and the latest technologies
Implementation of responsible corporate activities	(7) Response to climate change	P.63	Expand business domains in response to customers’ new needs by offering solutions that consider climate change risk and the environment	Contribute to the maintenance and improvement of the global environment by reducing the environmental load	All stakeholders: Able to pass on a sustainable environment and society to future generations
	(8) Information security to provide safe and secure solutions	P.71	Become a corporate group that is trusted and supported by society by offering safe and secure solutions whose effectiveness we have verified ourselves	Protect customers from the threat of cyber attacks and contribute to the continuation of their corporate and social activities	Customers: Building solid BCP measures will enable them to earn social trust as highly resilient companies
	(9) Strengthening governance	P.67	Sound functioning of governance will enable agile responses to changes in the management environment, leading to strengthened competitiveness	Comply with the Corporate Governance Code throughout all our corporate activities and realize co-existence and co-prosperity with society	Investors: Able to enhance opportunities for dialogue that will lead to the discovery of ethical or structural risks, which is needed to prevent misconduct and decline in competitiveness

Toward Support for the Entire Office of Our Customers (Value Creation Cycle)

Data utilization

The evolution of AI, IoT, and other technologies is remarkable, and the diversification of customer contacts and strategic use of big data obtained from these contacts will become an important source of our competitiveness.

AI will analyze the SPR data containing a cumulative total of more than 50 million business negotiations, and the employee knowledge, know-how, and mechanisms to use that data are the most important intellectual capital of OTSUKA CORPORATION. We will work to strengthen our data utilization, including acquiring patents for business models that apply AI technology and promoting AI awareness-raising activities within the company.

Forging relationships

We will strive to forge new relationships with customers by promoting data utilization through the enhancement of customer interfaces. Real, Web, and Center interfaces working in unison to get close to customers will allow us to forge even deeper and lasting relationships.

Building a long-term, sustainable customer base and solving the respective problems of those customers will lead to "supporting the entire office of our customers." The accumulation of such efforts will, we believe, lead to the realization of our mission statement.

Realization of
Our Mission
Statement

● Maintenance and expansion of the customer base

- Response to climate change
- Information security to provide safe and secure solutions
- Strengthening governance

Realization of Our Mission Statement	Indicators (non-consolidated)				
	Desired outcomes and OTSUKA CORPORATION's missions	Indicators and main initiatives	Results (±X% indicates change from previous year; X% indicates share)		
			2021	2022	This Report
By "energizing your office with IT," support the growth of many customers and contribute to Japan's further advancement	Number of customer companies with transactions	+0.7%	+1.9%	P.53	
	Net sales per company	+1.5%	-1.6%	P.53	
	Net sales of accumulated business	+6.2%	-2.8%	P.80	
Build an industrial ecosystem that can respond to diverse customer needs and make effective use of social capital	Number of partners	2,386 companies	2,395 companies	P.31	
	Supplier survey: Response rate (share of total value of purchases)	—	34%	P.61	
The continuation of business activities rooted in the community will result in co-existence and co-prosperity between OTSUKA CORPORATION and the community, creating a virtuous cycle of mutual development.	Net sales of local area sales departments / broad-regional branches (before application of revenue recognition standard)	+1.7%	+4.3%	—	
	Donation to fund disaster reconstruction efforts (Atami City)	¥50 million	—	—	
	Financial assistance for community revitalization (Fukuoka City)	—	¥100 million	P.38	
Establish a cycle to sustainably raise employee satisfaction and enhance corporate value, enabling employees to feel happy that they work at OTSUKA CORPORATION	Employee awareness survey response rate	77%	75%	P.39	
	Management reform	—	Review of evaluations, etc.	P.39	
	Average annual salary	¥8.22 million	¥8.56 million	P.11	
A world that affirms all the potential that people have will create a spiritually enriching society.	Percentage of female managers [target: 10% by 2027]	8.1%	8.7%	P.42	
	Rate of childcare leave used [target: 100% by 2027]: Men	15.9%	39.3%	P.42	
	Rate of childcare leave used [target: 100% by 2027]: Women	100.0%	100.0%		
Create new solutions by nurturing many advanced personnel with multiple skills to contribute to a sustainable society	Training costs per full-time employee	¥78,000	¥107,000	P.43	
As a progressive corporate group that demonstrates harmonious coexistence and growth with nature, realize the enhancement of corporate value and reduction of environmental load simultaneously	Scope 1 and 2 [Target: 42% reduction compared with 2021 by 2030]	—	+4.0%	P.81	
	Scope 3 [Target: 25% reduction compared with 2021 by 2030]	—	Calculation underway	—	
By complying with laws and regulations related to information security and promoting the protection of information assets, support the safe and secure corporate activities of customers	Company activity: CP (Compliance Program) License System	Training held	Training held	—	
	Company activity: Confidentiality management inspections and SP Committee	Each held 12 times	Each held 12 times	—	
Become a corporate group that is trusted and supported by society by complying with the law and practicing conduct that is in line with social rules to firmly embed our corporate excellence	Number of meetings of Nomination & Remuneration Committee	—	3	—	
	Number of recommendations and reports of Sustainability Committee	—	4	P.61	

OTSUKA CORPORATION Supports the Entire Office of Our Customers

OTSUKA CORPORATION solves all kinds of problems facing our customers with its wide range of solutions.



Office software, creative software, etc.

We continue to support various types of work styles regardless of location or device by providing a wide variety of software, both on-premises and in the cloud.

- 1 Microsoft 365
 - 2 Adobe
 - 3 Various software
- tayoreru Microsoft 365
tayoreru Adobe Creative Cloud
tayoreru Dropbox Business

Awarded Microsoft Japan Partner of the Year for 24 consecutive years

- 4 OTSUKA GATE
- About OTSUKA GATE ▶ P.80
- 5 Develop websites
- 6 Alpha mail (domain management)

CAD solutions

We are the top vendor of products supplied by partners in Japan. We have a large number of dedicated support staff and offer a full range of operational support services such as a variety of CAD schools.

- 7 CAD
- 8 CAM
- 9 CAE
- 10 3D printers
- 11 PDM
- 12 3D scanners

Latest technologies

We propose technology know-how we have cultivated through in-house use as customer-friendly solutions.

- 13 AI solutions (analysis/prediction services)
- About dotData ▶ P.32/P.50
- 14 Image analysis
- 15 RPA
- 16 ChatBOTS
- 17 Robots
- 18 IoT
- 19 VR/AR

Management support

In addition to management support utilizing IT, we cooperate with outside experts such as SME management consultants to contribute to solving our customers' issues.

- 20 Management support services
- 21 Response to legislative amendments

 - Act Concerning Preservation of Books by Means of Computers
 - Act on the Protection of Personal Information/Invoice system
 - Labor Standards Act/Support for utilization of subsidies or grants

- 22 Consulting, etc.

 - Human resource development/Internal control/Support for initial public offering

- BCP measures
- 23 Data centers
- 24 Backups
- 25 UPS

Major awards received from our partners ▶ P.31



Document solutions

We propose hybrid solutions of the real and the digital based on know-how we have cultivated over 60 years in the copier business.

- 60 Multifunction peripheral/attachment app
- 61 Electronic contracts
- 62 Electronic invoices
- 63 Document storage and disposal
- 64 Document management systems
- 65 Business card management

Communication and network

We propose solutions for the entire ICT environment of our customers.

- 56 Key telephones and PBX
- 57 Smartphones
- 58 Communication lines
- 59 Wi-Fi

Support for teleworking

- 52 Softphones and FMC (smartphones used as extensions)
- 53 Remote access
- 54 Video conference/online conference
- 55 Communication tools

Security management

We protect our customers' valuable information assets against threats from inside and outside the office.

- 49 UTM
- 50 EDR/antivirus software
- 51 SOC (security operation center)

Hardware

We support our customers from product selection to data migration, installation work, and post-implementation support.

- 45 Personal computers
- 46 Tablets
- 47 Servers
- 48 Peripheral equipment

Core operation system and ERP solutions

We propose core operation systems that supports accurate management decisions and smooth business operations, according to the trade, scale, and requirements of our customers.

- 41 Core system from 1979: SMILE
- 42 Information system from 1992: eValue
- 43 Solutions
- 44 Integrated DX package
- 45 P.50/P.78

We provide solutions for a variety of industries, including manufacturing, construction, apparel, travel, and healthcare.

Supplies (tanomail)

A mail-order service offering a wide range of office supplies and other products. Our product lineup also includes environmentally friendly merchandise and our private label "TANOSEE."

- 26 Office supplies
- 27 Stationery
- 28 Daily supplies
- 29 Furniture
- 30 Tools
- 31 Nursing-care products

Ranked No. 1 in the 2022 customer satisfaction survey of corporate mail-order service
Survey by J.D. Power Japan, Inc.

32 Distribution center

We strive to improve our customers' convenience with six distribution centers and 14 delivery centers nationwide closely collaborating to expand same-day delivery areas.

About our distribution centers ▶ P.64

Electric power solutions

We offer various effective energy-saving and environmentally friendly solutions to support our customers' efforts for cost reduction and social contribution.

- 33 LED
- 34 Lighting control
- 35 BEMS
- 36 New power supply

Supporting customers

We have an enhanced support system in place, including various centers where experienced engineers and dedicated staff provide support and Customer Personalized Pages which are online contact points.

37 On-site support

A professional engineer from the support office visits the customer to solve the problems.
(Number of support offices: 280 nationwide, number of engineers: approximately 3,000)

38 tayoreru Management Service Center

A support headquarters that provides integrated monitoring of our customers' systems 24 hours a day, 365 days a year.

39 Customer Personalized Pages

Customers can confirm and change contract details and access useful menus and other information we provide on the page.

40 tayoreru Contact Center

One of the largest technical contact centers in Japan that provides post-implementation operational support and information.
(Number of support staff: approximately 600, number of monthly support requests: approximately 150,000)

2022 customer satisfaction survey of call center for corporate technical support
Ranked No. 1 in the copier & printer category
Ranked No. 1 in the PC & tablet category
Survey by J.D. Power Japan, Inc.
About tayoreru Contact Center
▶ P.12/P.18/P.50

The Story of Company A



Company A is a bearings manufacturer of long standing with its headquarters in Tokyo's Ota-ku.

It was founded in 1974, the year that the oil crisis brought an end to Japan's rapid economic growth, backed by the fierce commitment of its founder to "rise up for the sake of Japan."



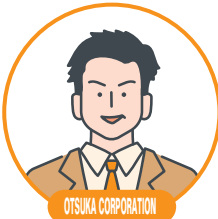
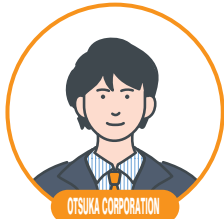
"Company A, the best in bearings."

The company's meticulous work and the certainty of its technologies were well received, and slowly but surely, it grew into a company with 120 employees.

While all appeared to be smooth sailing for Company A, it also had its challenges. One of those was the productivity of its back-office work, which had continued to increase as the company expanded.

This is the story of how this Company A and OTSUKA CORPORATION came to meet. It also tells the story of the growth that began from that meeting.

*The Story of Company A is a work of fiction, written to facilitate readers' understanding of OTSUKA CORPORATION's approach of "support the entire office of our customers."

<p>Tetsuo Tanaka</p>  <p>Company A</p> <p>General Manager, Accounting Department (46) An overly cautious type who would knock on a strong stone bridge before crossing, he can sometimes be susceptible to pressure. He has the complete confidence of the company president, and he deals with a wide range of departments, including HR, general administration, and the IT division overall.</p>	<p>Kotomi Fujii</p>  <p>Company A</p> <p>Accounting Department staff (27) Born and raised in Ota-ku. She has twice as much company spirit as anyone, thanks to the influence of her father, who recently retired from the company. Highly inquisitive, her motto is "quick decisions, prompt action."</p>	<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Cast of Characters</p>	<p>Shinya Ogura</p>  <p>OTSUKA CORPORATION</p> <p>Sales representative (35) Confident of his stamina, forged playing rugby at university. A salesman to the core, who declares that chatting to customers is his favorite pastime. He is currently vigorously studying AI.</p>	<p>Shinji Samoto</p>  <p>OTSUKA CORPORATION</p> <p>Engineer (42) Has spent 20 years working single-mindedly as an engineer. His competence has earned respect inside and outside the company. With his gentle demeanor and easy-to-understand explanations, he has amassed many fans among customers.</p>
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"I'll clip it closer than usual, okay?"

Tetsuo Tanaka snaps back to the present at the sound of the barber's voice. Tomorrow, he is to receive a special award from the president in recognition of his achievements in the promotion of DX.

Knowing that his photo will appear in the company magazine, he has come to the barbershop to get his hair cut, but he is having trouble wrapping his head around the notions of "DX promotion" and "special president's award." Concentrating on the sound of the clippers' motor and Tanaka slowly closes his eyes.



It all started with "tanomail."

The night he went out drinking in Shinjuku to celebrate his promotion to General Manager of the Accounting Department, a billboard advertising "tanomail" caught his eye. He had heard of it from the [TV commercial with all the puns](#), but he had never looked into it properly. Aided by his sense of mission as the newly appointed head of accounting to curb the costs of ordering supplies, the next day, he called out to one of his subordinates, **Kotomi Fujii**.

Fujii was quick to act.

By the end of the day, she had selected a number of companies and drawn up a list comparing their prices, delivery times, and services, which she brought over to Tanaka.



Fujii “Mr. ...um, General Manager Tanaka!”

Not yet used to being called “General Manager,” Tanaka was embarrassed by the way Fujii emphasized it.



Fujii “tanomail might be the way to go! It’s fast and cheap, and it seems to have good reviews². I’ll use tanomail when I order copy paper today!”



Pushed by Fujii, changing the supplier for copy paper became Tanaka’s first job as General Manager of the Accounting Department. As it turned out, “tanomail” worked out well.

It was probably a natural progression that they started ordering more and more other office supplies from tanomail. Then, one day, Tanaka was contacted by **Shinya Ogura**, a sales representative from OTSUKA CORPORATION. Ogura said that, in addition to paying a courtesies call, he wanted to make a proposal. Thinking that it would be a good way of gathering information, Tanaka agreed to Ogura’s request for an appointment.

Ogura arrived five minutes before the appointed time.

Combining an air of innocence with his bulky, 180-cm frame, Ogura’s lively voice and big, round eyes reminded Tanaka of one of those boy band pop idols. After a few minutes of small talk, Ogura brought out his proposal document.



Ogura “I hope you don’t mind, but I would like to put to you a proposal for multifunctional devices. I have come up with the best plan for your company, based on the quantities of copy paper you are ordering.”

Company A holds events for its customers every three months. Due to the need to produce catalogues for these events, there was a marked fluctuation in the quantities of copy paper purchased and the frequency of use of the multifunctional devices.

The sight of young employees like Fujii wrestling with the multifunctional devices until very late at night immediately before these events was a routine occurrence at Company A.

Ogura’s proposal was for a plan that would bring down costs during those periods of peak use.

The proposal document said that, if Company A were to adopt this plan, it could save ¥1 million a year.

It even included a proposal for a plan to improve Company A’s productivity by using those savings to install CAD solutions, including a 3D device.



Even so, Tanaka had only just met Ogura for the first time that day.

While recognizing the appeal of the proposal, he was unable to completely dispel his skepticism, so the meeting that day ended without any particular progress being made.

¥1 million was not an amount that Company A could ignore. Particularly as it would be a saving made every year.

As usual, Tanaka called Fujii over and asked her to scrutinize the proposal document carefully.

Once again, Fujii was quick to act.



Fujii “Mr. Tanaka!”

Forgetting to call him by his position in her excitement, Fujii came over, talking fast.

¹ Corporate Branding ▶ P.88

² Ranked No.1 in the 2022 customer satisfaction survey of corporate mail-order service ▶ P.12



Fujii “This proposal is fantastic! Its forecasts are right on the money!

Let’s buy multifunctional devices from OTSUKA CORPORATION!”

Tanaka was pressed for an answer by the forceful Fujii, but this was not the same as changing the supplier for copy paper. It was not something he could make a snap decision about.

He read over the proposal document again. How could he have made such accurate forecasts of the quantities of their copy paper orders? He wanted to hear what Ogura had to say again, so made an appointment.



Ogura “Well, actually, AI told me.”



(AI?)

Realizing that Tanaka was perplexed by this unexpected term, Ogura added some more information.

The gist of his explanation was as follows.

tanomail has close to two million registered customer accounts, which generates massive volumes of transaction data on a daily basis.

By using AI to analyze this data, they are able to [identify new leads](#)³.

Last month, changes in the number of cardboard boxes being ordered led to the realization that a customer was relocating.

Even so, AI does not tell them everything.

The results of the AI analysis are shared with Sales in the form of [customer visit recommendations](#)⁴.

However, working out what that means and interpreting those results is a major task of the sales reps, one for which they receive [training](#)⁵.

In Company A’s case, after receiving the AI recommendation, Ogura checked Company A’s website and developed a theory about the timing and scale of its events and the quantity of copy paper it used. Based on that theory, he came up with the essence of the proposal.

Also, multifunctional devices are OTSUKA CORPORATION’s specialist area.

Although OTSUKA CORPORATION seems to be more well known for tanomail, sales on that service actually account for only 20% of the company’s net sales.

The remaining 80% mostly comprises sales of various hardware, software, and maintenance services.

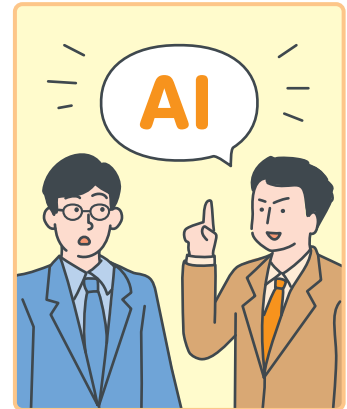
In particular, the multifunctional device business was the founding business of the company, and in the over 60 years of its history, it has grown into a business with some [100,000 customers](#)⁶.

It has continued to help its customers to reduce costs with a variety of proposals that help them solve their issues, and it has a wealth of expertise in digital documents, which helps to conserve paper resources.

Multifunctional devices, PCs, servers, cloud ERP, networks, security ...

OTSUKA CORPORATION has assembled a wide range of solutions that offices need and continues to respond to customers’ problems.

OTSUKA CORPORATION is also the top vendor of CAD solutions products supplied by partners in Japan and would be able to combine the products that would best suit Company A from among those products. Ogura concluded with this final point.



Ogura “It’s all about ‘supporting your entire office.’”

“I’ll rinse your hair now.”

Prompted by the barber, Tanaka moves to the shampoo corner.

With the replacement of its multifunctional devices, Company A was able to reduce its costs as planned. Also around that time, the convention of late-night overtime just before an event became a thing of the past.

The seat reclines, and Tanaka’s face is covered with a towel. Tanaka closes his eyes again.

What comes to the back of his mind is the face of **Shinji Samoto**, who had saved him in a crisis with his calm response when Tanaka was unsure which way to turn.



That particular day, Tanaka had been called into the president's office before lunch.

The president wanted him to prepare the documentation with the sales data analysis for the Board Meeting that evening.

After he had received his instructions and returned to his desk, he could hear a commotion going on around him.

Today of all days, apparently, the sales system wasn't working.

Company A does not have its own IT staff.

It has installed equipment and services mainly from three vendors that it has dealt with over the years.

The three vendors were separately responsible for the system, hardware, and network, and Company A's relationships with them were neither very good nor very poor.

Regarding the system, the current president had been involved in its selection, and there was a tacit understanding among Company A employees that replacing it was taboo. With any breakdowns to date, they would contact the relevant vendor and they were usually able to fix the problems without drama. This time, however, things seemed a little different.

Fujii came and told him what was happening.

She had contacted all three vendors, but none of them could work out what the cause of the problem was.

All three vendors were very polite in their response, but they each said to ask the other two vendors, and Fujii was being given the run-around. There was no predicting when the system would be restored.

There was very little time until the Board Meeting.

If the system wouldn't work, Tanaka would not be able to produce the document.

He explained his predicament to Fujii.



Fujii "Oh dear! You are in a bind, aren't you?!"

She said this with a hint of glee, like a child enjoying trouble, but she soon read the atmosphere and quite deliberately put on a straight face once more. She was quiet for a moment.

Then, with a spark of inspiration, rubbing her chin with her hand, she opened her mouth.



Fujii "Let's ask Mr. Samoto from OTSUKA CORPORATION for advice!"

Samoto is an engineer at OTSUKA CORPORATION who is responsible for multifunctional device maintenance. He just happened to be at Company A at that very moment.



Fujii "Mr. Samoto really knows a lot about IT."

Even before she finished speaking, Fujii went off to look for Samoto.

Having finished his maintenance work, Samoto was getting ready to leave, but when he noticed Fujii, he greeted her with a smile.

Fujii started to explain the situation.

Samoto took out a notebook.

The two of them changed location and, while visually inspecting the cables and equipment, Samoto started taking photos with his smartphone.

He then made a brief telephone call to someone and came back to Tanaka's desk.

It had been just under ten minutes.



3 AI information helped us identify a lead ▶ P.48 4 Recommend companies to visit and products to propose ▶ P.47

5 System and internal education ▶ P.49

6 Number of customers with multifunctional device maintenance transactions (as of the end of December 2022)

The Story of Company A

**Samoto "I have two suggestions."**

Samoto's attention had focused on network equipment that had not been purchased from any of the three vendors. Until he was told about it, Tanaka had not even been aware of that equipment's existence, but apparently it had been purchased at an electrical appliance store several years ago, and the department next door had been using it. Samoto had looked at the status of the LED lamps, nodded slightly and taken photos, according to Fujii's later recount. With Fujii's consent, Samoto sent the photographs to OTSUKA CORPORATION head office and made a telephone call to confirm. His first suggestion was that Tanaka inform the vendor responsible for the network of the existence of this piece of equipment.

His second suggestion was to check with the system vendor about the possibility of operating in a stand-alone environment using a specific terminal.

He said that this should make it possible to view the data needed for the Board Meeting temporarily.

Samoto was probably certain that, with his first suggestion, they would be able to work out a solution to the problem.

However, if that didn't work, there would be no time to prepare a different solution.

For this reason, he wanted to check with the system vendor beforehand about the important points regarding operating the system.

Tanaka immediately agreed to Samoto's suggestions and gave instructions to contact the two vendors.

About 15 minutes later, the network vendor called, and the sales system was back up and running.

Samoto had waited to make sure, but he had another appointment, so left Company A.

.....

The next day, Tanaka received word from Samoto. He said that he wanted to call in on Company A.

**Fujii "We have to thank him properly for saving us in our crisis!"**

Fujii looked very happy with herself, as if it was her own achievement.

Fujii said that she had once received a lecture about the multifunctional devices from Samoto and that she had realized then that he was very knowledgeable about IT in general.

The reason that they no longer had to do overtime when producing the catalogues was that Fujii had launched a mini project to put into practice what Samoto had taught her, which had led to dramatic improvements in work efficiency. Samoto arrived.

Tanaka led him into the guest reception room and served him premium Japanese sweets from Toraya and high-quality green tea.

Looking somewhat embarrassed, Samoto took out two documents.

One of them had written on it "Data Custody Confirmation."

**Samoto "Albeit it was an emergency situation, yesterday, I saw some of your company's important internal data. I apologize for it being after the fact, but this is our company's rule, so could I ask you to affix your seal to this document?"**

The other document was titled "Outline of Company A's Overall Network."

**Samoto "Based on the details from yesterday, I have compiled an outline of the overall image of your network. Next time you have any problems, please give this to your network vendor. I believe that it will help shorten the time needed to resolve the problem."**

Tanaka had thought that Samoto had come to give him some kind of invoice, so as well as being disarmed, he also felt rather ashamed of himself. Checking that Samoto still had some time, Tanaka asked Samoto something he had been wondering.

How was it that a multifunctional device maintenance engineer came to be so knowledgeable about IT?

Samoto's answer was the same as Ogura's.

Multifunctional devices are not just copy machines.

They can be connected to core systems and they can even manage business cards and be used for clocking in and out.

They are also key to promoting paperless operations.

Customers' issues cannot be solved with just a single solution.

Synergistic effects between individual products and services are crucial.

That is why he has acquired a great deal of knowledge about other technologies, not just multifunctional devices.

It is only then that he is able to respond to customers' various problems.

Samoto concluded with this final point.



Samoto **"It's all about 'supporting your entire office.'"**

After seeing Samoto off, Tanaka returned to his desk.

As he was gazing at the multifunctional device a short distance away, he was summoned to the president's office.

The president told him that Company A would be fundamentally reviewing its promotion of DX, an area where it was lagging, and that he wanted Tanaka to engage in this task in earnest as the project leader.

In that instant, Ogura's and Samoto's faces appeared in his mind.

Summoning his courage, Tanaka briefly told the president about tanomail, about the multifunctional devices, about OTSUKA CORPORATION's assistance when there was a problem, and about his earlier conversation with Samoto.

Halfway through Tanaka's explanation, the president looked to the side, twirled his fountain pen with his fingers, and finally, started tapping the cap. This gesture was the president's unique sign of approval.

Tanaka said that he would immediately launch the project with OTSUKA CORPORATION as partner, and, bowing, he departed the president's office.

"Right. All done!"

Tanaka's stiff shoulders have relaxed with the barber's careful massage. His fragmented recollections have all been connected and his mind is now clear.

In the three years since the project was launched, they have worked in tandem with OTSUKA CORPORATION to press forward with DX promotion at Company A. Their suppliers had been impressed, and Company A had even held a tour with the title of "Supporting the Entire Office – Visit Company A." Tomorrow, he will probably receive a money reward.

He wants to go out drinking with Ogura, Samoto, and Fujii.

He will ask Fujii to choose a good place to go.

Tanaka opens the door of the barbershop and heads home.



Support the entire office

OTSUKA CORPORATION aims to solve all kinds of “problems” of our customers in their offices with IT and support the “entire office of our customers.” Our unique business model (p.17), which provides a wide variety of solutions needed in the office in the form of one-stop solutions without being bound to specific manufacturers, is based on an ecosystem supported by many partners, and is still continuing to evolve.

In 2022, we reorganized our internal system to deliver more value provided by “supporting the entire office of our customers” than ever. We will strive to enhance our value proposition to our customers through the promotion of “supporting the entire office of our customers” while focusing on productivity improvement, including preparation of tools that can be effectively utilized internally while sharing knowledge gained through business negotiations with our customers.

Coexistence and Co-prosperity with Partners

Materiality (2)

Approximately 2,400 partners that support our efforts to “support the entire office of our customers”

Mutual support with excellent partners is critical to promote “supporting the entire office of our customers.” Since our founding, OTSUKA CORPORATION has established a unique ecosystem that allows us to provide diverse solutions by expanding our business domain based on our customers’ needs and building relationship of trust with many partners.

Currently, we receive supplies of superior products, services, and technologies of various field from approximately 2,400 partners. The support of these many partners has enabled OTSUKA CORPORATION to provide its unique solutions that cover “supporting the entire office of its customers.”

Provide marketing functions

To connect many partners with customers and support the delivery of value; that is OTSUKA CORPORATION’s raison d’être. The fact that our partners are doing business with us means that they have the chance to start doing business with approximately 292,000 customers (number of customer companies with transactions in 2022), which is our customer base. For partners, it is more efficient working with us than building up their own marketing function and selling and providing support directly to domestic customers of all sizes by themselves. It is also an effective way to utilize social capital.

In addition, sharing customers’ potential needs obtained through our sales activities supports the development of new products by our partners, leading to the creation of new value that contributes to solving our customers’ issues. OTSUKA CORPORATION will continue to contribute to solving the “problems” of our customers through coexistence and co-prosperity with our partners.

Awards in 2022 (not exhaustive)

Partner	Details of awards
Cybozu	Partner of The Year (15)
Trend Micro	Awarded in The Best Partner Category (19)
Fortinet Japan	Japan Partner of the Year (12)
Adobe	The Experience Maker Executive of the Year
Dropbox	Best Reseller of the Year
Microsoft	Japan Partner of the Year 2022 (24)
NetApp	NetApp Japan Partner Award 2022 Special Award (3)
RSUPPORT	Best Partner Award
Sky	Sales Partner Award
SOLIDWORKS	TOTAL BOOKINGS Japan (27)

*Listed in the order of the Japanese syllabary. Numbers in parentheses indicate the number of consecutive years of award.

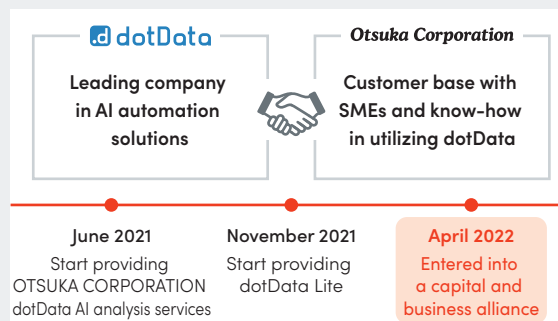
CASE | Capital and business alliance with dotData

In April 2022, OTSUKA CORPORATION entered into a capital and business alliance* with dotData (headquartered in California, U.S.A., CEO: Ryohei Fujimaki), a leading company in AI automation solutions.

We also utilize products of dotData to analyze our own data. In 2021, we launched a service to provide know-how gained through such analysis to our customers.

However, in Japan, AI is mainly used by large companies, and penetration of AI use in SMEs is said to be still insufficient. Through this capital and business alliance with dotData, we will further strengthen the relationship between technologies of dotData and OTSUKA CORPORATION that has strengths in SMEs, and work to develop AI solutions that are easy to use for those companies.

[Joint development of solutions](#) ▶ P.50



We will accelerate the creation of solutions through growth investment in partners with unique strengths, such as dotData, and further strengthen and promote our “support for the entire office of our customers.”

*Form of investment: capital increase by third-party allotment, amount of investment: \$21.62 million

Sustainable Procurement Policies and Guidelines

OTSUKA CORPORATION aims to provide solutions to environmental issues and human rights and labor issues that enable sustainable growth while maintaining harmony with the Earth and society. In order to increase its effectiveness, we work to

strengthen functions of our ecosystem and understand risks, including conducting status surveys* of our partners based on our Sustainable Procurement Policies and Guidelines formulated in 2022.

*Sustainability Management ▶ P.61

Systems and Initiatives

New system aiming to “support the entire office of our customers”

To further promote “supporting the entire office of our customers,” we have adopted a new evaluation system since 2022, and reorganized our internal system to solve a wide range of customer problems.

The introduction of a system that highly evaluates employees who represent a company that our customers can rely on has also led to an increased awareness of “supporting the entire office of our customers” throughout the Company.

In terms of support, we will strengthen our initiatives to improve customer convenience by promoting one-stop support, including provision of ongoing training for engineers to become multi-skilled.

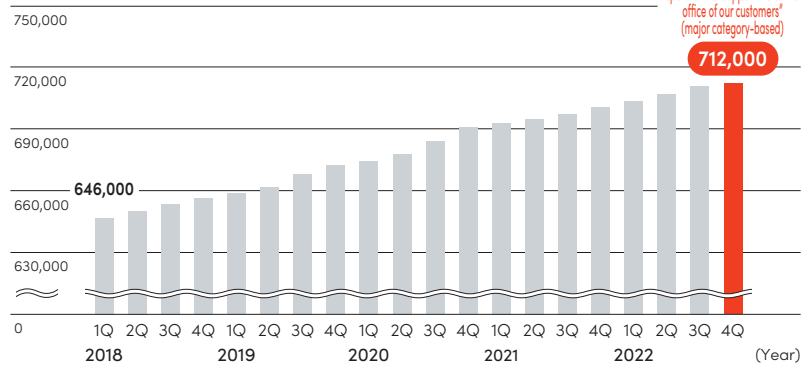
Target	Individual	Group (community)
Timing	From January 2022	From July 2022
Purpose	Support the “entire office of our customers” by encouraging information sharing between divisions	Support the “entire office of our customers” by further strengthening our community-based operations
Details	<ul style="list-style-type: none"> Correct the disparity in the product evaluation system among divisions Encourage sales activities that are not bound by own division’s products 	<ul style="list-style-type: none"> Introduce group (community)-based evaluations based on the progress of “supporting the entire office of our customers”

Support the entire office

Number of products in operation to “support the entire office of our customers”

In July 2022, OTSUKA CORPORATION reclassified our main solutions into 11 major categories (over 400 sub-categories) for the purpose of solving our customers’ issues. We will be committed to contributing to solving our customers’ issues more than ever by understanding details of our customers’ implementation status and also further promoting the use of AI (P.47), instead of “selling what we want to sell,” “proposing only products that are our strength.”

Quarterly trends of the number of products in operation to “support the entire office of our customers”*



*Total number of products in operation of implemented solutions (based on 11 major categories. Estimated considering product life cycle)

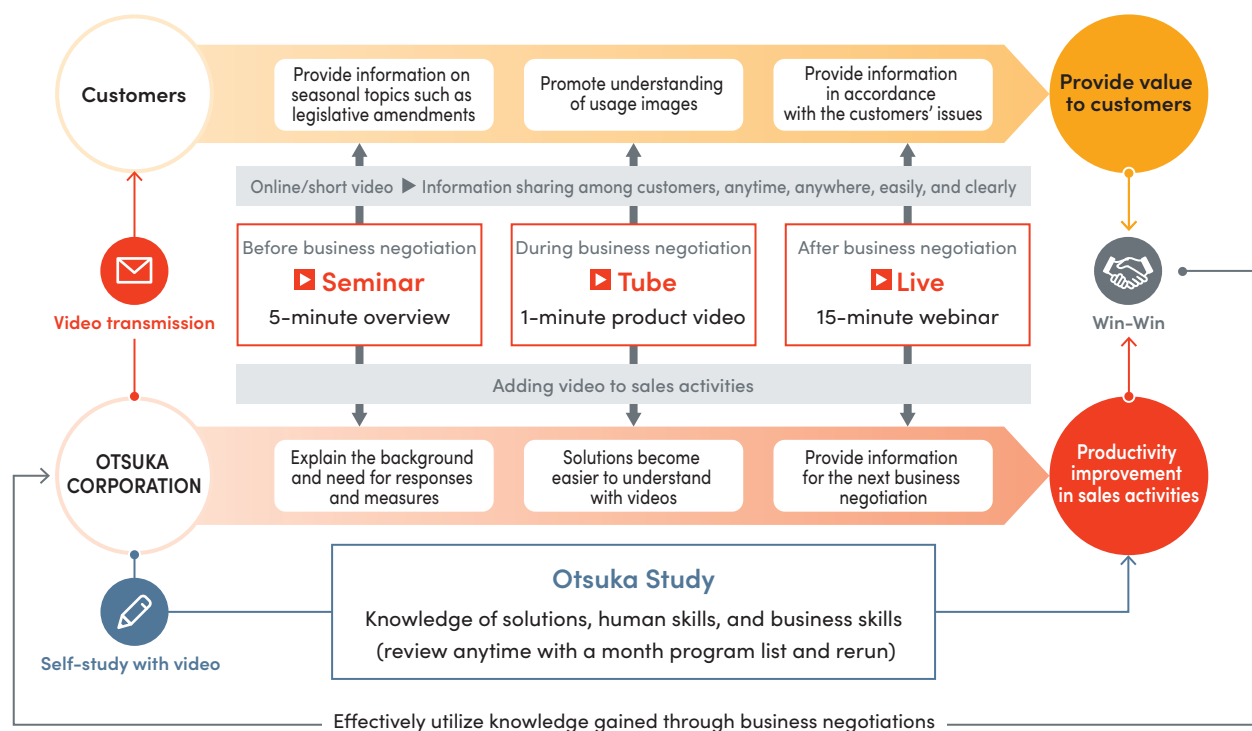
Knowledge Sharing Tools (Maru-navi)

In order to solve our customers’ issues, it is important to ensure that our customers properly understand the value of our solutions. OTSUKA CORPORATION has a variety of tools (Seminar, Tube, Live, etc.) in place and use them in accordance with the flow of our business negotiations to promote customers’ understanding and lead identification.

For employees, we provide them with “Otsuka Study” as a place to learn, thereby creating an environment

where anyone can easily learn at any time. We also hold study sessions not only on knowledge of solutions but also on human and business skills. They are actively used with approximately 60,000 views in 2022.

These tools are integrated into the “Maru-navi” intranet site where the latest information on solutions and other information are posted, and are indispensable for sales activities to promote “supporting the entire office of our customers.”



Expanding Business Performance (Message from the CFO)



Managing Director &
Executive Operating Officer
Hironobu Saito

Respond to Trust by Promoting the Realization of Our Mission Statement

The value that OTSUKA CORPORATION provides is to stay close to our customers as we help them improve their productivity and reduce costs. In 2022, we had transactions with approximately 292,000 customer companies, and we are very grateful that our customer base has consistently continued to expand.

We are committed to enhancing our corporate value and achieving sustainable growth by refining the unique business model that we have cultivated since our foundation and by living up to the trust of all stakeholders, including shareholders, customers, partners, employees, and society (local community).

Review of 2022
Business Results

P.34

Shareholder
Returns

P.35

Financial Base

P.36

Medium- to Long-term
Management Policy

P.37

Coexistence with
the Community

P.38

Review of 2022 Business Results

In 2022, amid an uncertain economic situation caused by factors such as the sudden fall of the yen and rising prices of resources and commodities due to the protracted Ukraine conflict, OTSUKA CORPORATION promoted its wide-ranging solutions to customers and was able to achieve its targets for net sales and

various forms of profit, both consolidated and non-consolidated. Due to the review of salary levels and other factors, selling, general and administrative expenses increased, but we secured an increase in profit for the second consecutive year.

Net sales regaining its strength. Gross profit the highest on record.

The Company has applied the Accounting Standard for Revenue Recognition since fiscal 2022. When compared with figures under the previous accounting standards, net sales fell by ¥36.5 billion, but when this effect is excluded, it recorded a 5.2% increase year on year in substance. While there was a decrease in revenue in 1Q due to the impact of the reactionary decline in special demand from the GIGA School project, on the other hand, the rate of increase gradually rose from 2Q onward, indicating that OTSUKA CORPORATION has been able to regain its inherent strength.

Looking back on a slightly longer span, there have been irregular factors over the past few years: Windows 7 EOS in 2019, COVID-19 in 2020, the GIGA

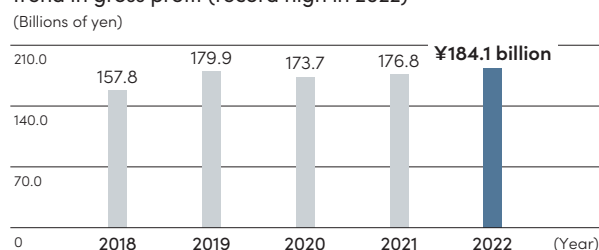
Schools project in 2021, and the changes in accounting standards in 2022. The fact that we recorded an increase in revenue of over 5% in substance and gross profit reached a record high for the first time in three years even under those circumstances is, we believe, an indicator that our series of initiatives toward “supporting the entire office of our customers,” which we have been reinforcing since 2022, has gradually started to make inroads. Our investments in IT in response to companies’ digitalization and to strengthen our competitiveness have been firm, and 2022 became a year in which we sensed that, by promoting our “supporting the entire office of our customers” strategy, OTSUKA CORPORATION will be able to keep growing into the future.

2022 Net sales

	Amount (Billions of yen)	Year on year change	Substantive year on year change*
Net sales (Full year)	861.0	+1.1%	+5.2%
1Q	210.0	-12.2%	-9.1%
2Q	235.2	+3.5%	+7.6%
3Q	196.8	+6.1%	+11.0%
4Q	218.8	+9.6%	+14.6%

*Substantive year on year change: Percentage change in net sales from the previous year assuming that the “Accounting Standard for Revenue Recognition” was applied in 2021.

Trend in gross profit (record high in 2022)



Expanding Business Performance

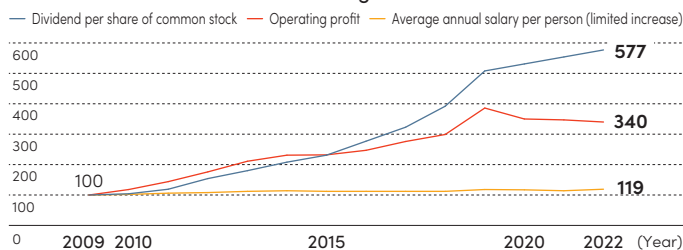
Review of Salary Levels

The year 2022 was a year in which we concentrated our efforts on strengthening our human capital. To increase employee engagement and review the gap in distribution of profits between stakeholders, we have undertaken a review of salary levels, including our first major increase in base salary.

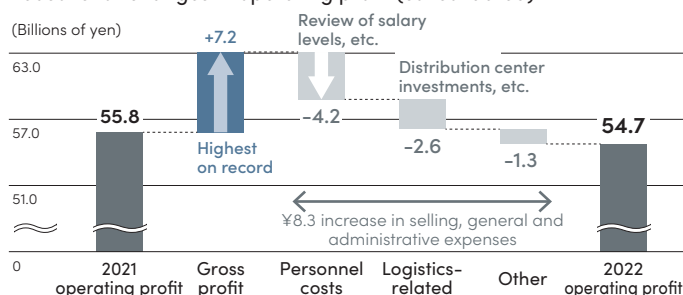
As the trend toward greater disclosure of human capital shows, human resources are a vital form of capital for a company's growth, and the strengthening of human capital represents nothing other than a growth investment for the future. To maintain sustainable growth in an era filled with uncertainty, it is essential that each and every employee thinks and acts for themselves and becomes an engine for the creation of new value.

Although the review of salary levels will cause short-term business results to flat, when viewed from long-term perspectives, we are confident that it will lead to the establishment of a competitive advantage.

Trends in each indicator with 2009 figures assumed at 100



Reasons for changes in operating profit (consolidated)



Profit increased for two years consecutively

Net profit reached a record high for the second consecutive year, boosted by tax deductions based on the tax scheme to promote the securing of human resources, etc. and by tax effect accounting (changes of recoverable categories recognized as probable against future stable profits).

Our equity ratio maintained its high level of 61.1%, and the balance of cash equivalents, at ¥203.2 billion, indicating that we have been able to achieve a steady strengthening of our financial base.

Shareholder Returns

OTSUKA CORPORATION recognizes the distribution of profits to shareholders as our most important management issue, and our basic policy is to pay stable dividends in line with our business results, while considering such factors as the strengthening of our management foundations and the soundness of our

financial position. We pay dividends once a year based on full-year business results. The amount of the dividend is determined after comprehensive consideration of factors such as the dividend payout ratio, total dividend amount, dividend yield, and retained earnings.

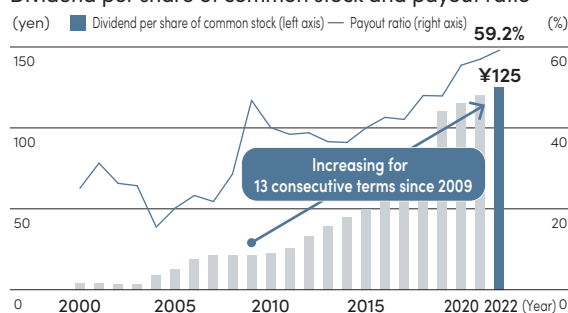
Dividend per share of common stock

For the fiscal year 2022, we returned profits to the shareholders who have supported us, with a dividend per share of common stock of ¥125 (dividend payout ratio was 59.2%)

	Ordinary dividend	Commemorative dividend*	Total
2020	115	—	115
2021	115	5	120
2022	125	—	125

*Commemorative dividend = 60th anniversary commemorative dividend

Dividend per share of common stock and payout ratio



Financial Base

To demonstrate our agility and continue to solve the problems of our customers even during emergencies, it is important that we have a strong financial base. By continuing to grow steadily since the listing of our shares on the stock exchange, our financial base has continued to grow to the point where it can be

Capital allocations

Cash equivalents exceeded interest-bearing debts in 2005, and we have operated virtually debt-free since then. An examination of trends by decade since our listing in 2000 shows that the 2000s was a period in which we prioritized the reduction of interest-bearing debts, funded by free cash flows that expanded due

	2000s (2000–2009)	2010s (2010–2019)
Free cash flows	¥85.3 billion <	¥231.6 billion
Dividend payment amount	¥19.0 billion <	¥85.7 billion
vs. Free cash flows	22.4% <	37.0%
Repayment amount of borrowings, etc.	¥58.7 billion >	¥1.8 billion
vs. Free cash flows	68.9% >	0.8%

Safety (equity and equity ratio)

As of December 31, 2022, equity was ¥319.3 billion and the equity ratio was 61.1%, making steady progress in the enhancement of our financial position.

Profitability (ROE)

We have maintained a high level of ROE above 10% for 13 consecutive years since 2010. We will continue to strive to further increase ROE through steady profit growth in the future.

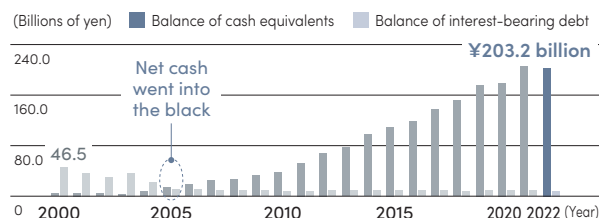
Securing agility with cash in hand. Financial management that also considers capital costs

In terms of the application of source funds, while carefully monitoring all manner of risks, we are simultaneously striving for the optimization of our capital structure. However, we also believe in the importance of securing a certain level of cash in hand for the sake of speedy business activities.

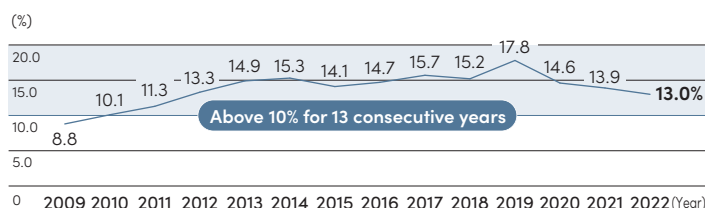
Due to the review of the labor share of income, total wages (non-consolidated: selling, general and administrative expenses and cost of sales) increased by approximately ¥3.1 billion (up 7.4% year on year) in 2022, and we plan to increase it further by approximately ¥2.0 billion in 2023. This means that the level of total wages will rise by approximately ¥5.0 billion a year over two years. If we consider the fixed nature of wages, this has the same financial impact as making an investment decision of approximately ¥50.0 billion over ten years.

considered as one of our strengths. We intend to further enhance our corporate value and achieve long-term sustainable growth by appropriately reallocating the cash we have generated to the securing of financial soundness, investments for future growth, and shareholder returns.

to the transformation of our business model with the Otsuka Strategy (P.45). Since the 2010s, with a solid financial base and an equity ratio steady at 50% or more, we have strengthened our shareholder returns, increasing our dividends every year for the past thirteen years in succession.



	2018	2019	2020	2021	2022
Equity (Billions of yen)	229.7	259.3	277.3	298.7	319.3
Equity ratio	56.5%	56.2%	58.8%	61.4%	61.1%



The only reason we have been able to make such a bold decision is that we have the backing of our financial base. We can also make quick decisions on attractive investments such as dotData, Inc. (P.32) because we are able to cover them with our own funds.

However, we do not intend to make any wasteful purchases. In terms of policy stocks, we conduct comparison verifications of return and WACC every year. We deliberate on whether or not to maintain our holdings in issues for which return is lower than WACC, and between 2019 and 2022, we divested 12 issues. These are the kinds of ways in which we strive toward balanced financial management.

Expanding Business Performance

Medium- to Long-term Management Policy

Since the declaration of our Mission Statement in 2003, OTSUKA CORPORATION's basic approach to medium- to long-term management policy has been "to grow with customers by realizing the Mission

Statement." We will continue to persist with this conviction going forward, and with firm responses to changes in the external environment, strive to enhance corporate value.

Medium- to Long-term Management Policy

Based on the Medium- to Long-term Management Policy described below, OTSUKA CORPORATION continues to implement specific initiatives, including the Otsuka Strategy II, to act on specific materiality issues, while aiming to embody our mission statement.

We have declared specific numerical targets of a steady 7% or more for both operating and ordinary profit margins. Although we have improved operating profit margin alongside the expansion of net sales in the past, to date, we have not been able to keep it steady at 7% or above. To achieve these targets, we will realize "supporting the entire office of our customers" by forging new relationships with customers with Otsuka Strategy II, and with increases in the number of customers and net sales per company as growth drivers, we will continue to grow

alongside our customers. This remains our basic policy.

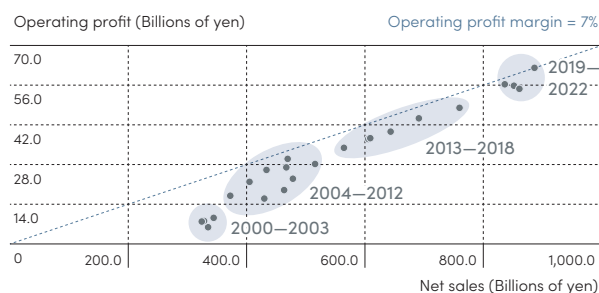
If we curb procurement costs and personnel costs, it will be possible to reach 7% in the short term. However, what OTSUKA CORPORATION is aiming to achieve is long-term, sustainable growth alongside all our stakeholders, including our customers, partners, and employees. To achieve sustainable growth, we are currently working to further refine our business model, which is our strength, in the growth cycle of our value creation model, and to realize a steady 7% or more for both operating and ordinary profit margins.

Currently, we are considering new numerical targets for our medium- to long-term management plans. We will give our careful consideration to these plans with responsibility.

Medium- to Long-term Management Policy

- Continue stable and sustainable growth while responding to changes in the environment
— Achieve both operating and ordinary profit margins of a steady 7% or more —
- Slight increase in workforce plans, while keeping productivity improvements in mind
- Explore demand with the use of data
- Improve productivity through the efficient use of people, goods, money, and information

Net sales and operating profit (2000–2022)



Recognition of external environment

We will take action aimed at further growth by recognizing changes in the external environment and the risks and opportunities they pose to our business and leveraging the capital we have accumulated.

In particular, securing and nurturing human resources is an element of responses to all megatrends and the wellspring of corporate value creation. For this reason, we plan to take priority actions in this area.

OTSUKA CORPORATION hopes to live up to the trust of our stakeholders, by achieving growth that is optimal across the whole, considering the balance between stakeholders, while responding to the various changes in the external environment.

Megatrends	Basic Policy
<ul style="list-style-type: none"> ● Decrease in working population ● Shortage of IT personnel 	<ul style="list-style-type: none"> ● Productivity Improvements ▶ P.16 ● Securing and Nurturing Personnel ▶ P.43
<ul style="list-style-type: none"> ● Evolution of technology ● Acceleration of digital shift 	<ul style="list-style-type: none"> ● Promotion of AI Utilization ▶ P.47 ● Strengthening the Ecosystem ▶ P.31
<ul style="list-style-type: none"> ● Climate change ● Transition to a carbon-free society 	<ul style="list-style-type: none"> ● Promotion of Sustainability Management ▶ P.61

Please refer to the following pages for the growth stories of our stakeholders

- Shareholders ▶ P.35
- Customers ▶ P.51
- Partners ▶ P.31
- Employees ▶ P.39
- Society (local community) ▶ P.38

Coexistence with the Community Materiality (3)

OTSUKA CORPORATION places special emphasis on business activities that are rooted in the community. We believe that our community-based operations will create a virtuous cycle of mutual development between OTSUKA CORPORATION and the community.

Working alongside our customers through community-based operations

We emphasize **community-based operations** since our foundation. Realizing **quick delivery & quick service** with our “Newspaper Strategy”* for increasing customer density within the area.



Since its founding, OTSUKA CORPORATION has emphasized customer support that is rooted in the community. Our community-based operations enable us to stay close to our customers in the area, so we can rush to their side whenever they have a problem. Increasing customer density within the area will lead to the provision of more efficient services.

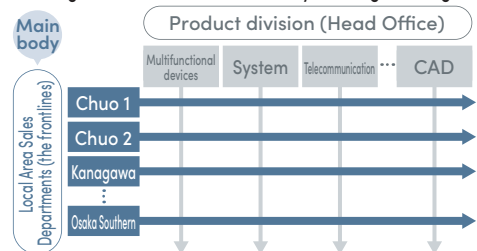
*Newspaper Strategy: a strategy of community-based operations in which we deliver even a single ream of copy paper to our customers with the same mobility and flexibility of a paperboy delivering newspapers to subscribers in the area.

Community-based organizational structure

With the expansion of our business domains and the products we handle, we have come to focus on sales activities centered on the product division (Head Office), and recognize the importance of “enhancing customer contacts” so that we can better solve customers’ issues.

In 2016, we announced both internally and externally that we would return to our starting point of “community-based operations” primarily led by the Local Area Sales Departments (the frontlines) and have continued those activities ever since. No matter how much technology advances with the arrival of the digital society, OTSUKA CORPORATION’s style will remain unchanged, that is, to stay rooted in the local communities and grow together with those communities.

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



CASE Support for community revitalization / Solutions to social issues

● Support for community revitalization (presentation of donation)

In April 2022, to commemorate the 30th anniversary of the establishment of the Kyushu Branch, OTSUKA CORPORATION presented a donation of ¥100 million to the City of Fukuoka (taking advantage of the corporate version of hometown tax scheme). The donation will be used in various projects in preparation of the World Aquatics Championships to be held in Fukuoka in July 2023 and other events.



Soichiro Takashima, Mayor of Fukuoka (left) and Akiyuki Umehara, General Manager of Kyushu Branch, OTSUKA CORPORATION

● Solutions to social issues (nursing care solutions)

OTSUKA CORPORATION has deployed a variety of solutions to help realize the Community-based Integrated Care System being pursued by the Ministry of Health, Labour and Welfare. In August 2022, we began the provision of FURO-SHIKI, a platform to support the digitalization of nursing care operations. Taking maximum advantage of our strength as a multi-vendor that is able to manage the mimamori (monitoring) IoT devices of various manufacturers centrally, we are contributing to the realization of DX on the frontline of nursing care.

● Solutions to social issues (assisting responses to legislative amendments)

We are working to increase sales of solution products in response to the new requirement for businesses that use noncommercial vehicles to conduct mandatory alcohol checks on drivers using breathalyzers. We have introduced these solutions to our own approximately 3,700 drivers, and we share the knowledge thus gained with our customers.

Investment for Growth (Developing Human Resources)

In order to realize the Mission Statement by promoting the support of the entire office of our customers, it is important to strengthen our human capital. Without striving to attract and retain diverse human resources while establishing a sustainable human resource system by balancing employee satisfaction and corporate value improvement, we will not be able to appropriately meet our customers' needs which are becoming increasingly complex. In addition, we need to develop advanced human resources with multi-skills who can support the entire office of our customers.

Our founding spirit (P.1), which is the origin of OTSUKA CORPORATION, is also centered on "people," and we have three materiality issues related to "people". We will strive to strengthen human capital for employees' growth and self-fulfillment, and new value creation.

Three materiality issues related to "people"

Improvement of Employee Engagement

P.39

Promotion of Diversity, Equity, and Inclusion

P.41

Human Resource Development

P.43

Improvement of Employee Engagement Materiality (4)

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 foster a corporate culture and implement various measures to achieve this goal. We began to review

our evaluation system and improve the labor share of income in 2022, and plan to strengthen measures for well-being and to introduce a manager promotion system in 2023, thereby promoting our initiatives to improve employee engagement.

Structure and system

We conduct continuous monitoring of employee engagement through employee awareness surveys and workplace improvement round-table conferences. By reflecting the results of these efforts in various measures and continuing to strive to create job satisfaction for employees, we aim to realize a relationship that enables both employees and OTSUKA CORPORATION to grow sustainably.

Employee awareness survey	Employee awareness surveys are conducted every year* regarding penetration of the Mission Statement, satisfaction with work environment and compliance status, etc. *The 17th survey was conducted in February 2023
Workplace improvement round-table conferences	We hold a workplace improvement round-table conference as one of the means of communication in order to reflect the opinions, requests, and suggestions of employees in our management. Results of the study of each proposal are posted on the company's portal site.

Management reform

Initiatives for well-being

For taking on the challenge of new value creation, psychological safety and high self-efficacy are important, but these are qualitative and difficult to grasp. At OTSUKA CORPORATION, we have significantly expanded the scope of AI Happiness usage since 2023 to strengthen our initiatives to visualize how happy each of the employees are.

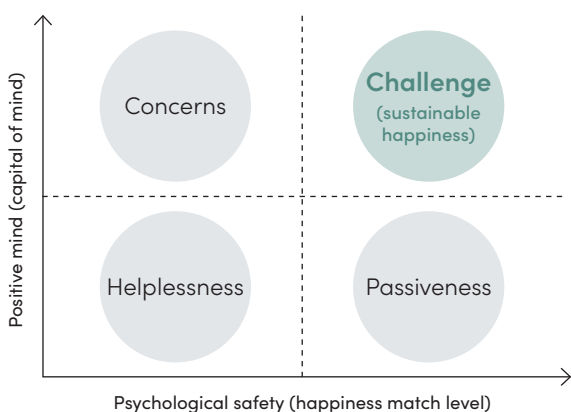
AI Happiness is a smartphone app that allows employees to share small daily challenge declarations with other employees to increase vertical, horizontal, and diagonal connections within the organization and

to foster a positive mindset. Every morning, the user can for example declare a challenge to motivate himself/herself, and support and encourage other participants as if they were on a social media.



Based on the status of AI Happiness usage and employee survey conducted on a regular basis, the status of individuals and organization is plotted in four quadrants. By confirming its changes, we aim to help foster a corporate culture and improve management.

Plot and visualize corporate culture



Improve the labor share of income

We have been reviewing and amending our salary structure since 2022 to further strengthen human capital and improve job satisfaction. In order to protect the livelihood of our employees from rapidly rising prices, we have implemented various measures that will lead to an increase in the labor share of income, including the first large basic salary increase

Review of evaluation system

We have adopted a new evaluation system since 2022 to further promote the “support of the entire office of our customers.” We will work to increase engagement by highly valuing activities that make customers feel we are a company that they can rely on, and linking these initiatives to job satisfaction for our employees.

New system aiming to “support the entire office of our customers” ▶ P.32

Sales manager promotion system

We will adopt a sales manager promotion system from July 2023. Based on employee feedback in the employee awareness survey and workplace improvement round-table conferences, we have reorganized the ideals of sales managers from a more multifaceted perspective.

Through the introduction of this system that comprehensively judges not only the past sales performance as a salesperson, but also skills for supporting the growth of subordinates, team building, and communication, we will foster a healthier management culture.

(uniform ¥10,000 for all employees) in July 2022.

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

Amount implemented : Message from the CFO ▶P.35-36

	System	Target	2022				2023			
			1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
1	Incentives	Sales and technical personnel	Increase (linked to performance)				Expand target (technical personnel)			
2	Basic salary	Non-management position	Increase in amount				Addition			
		Management position	Increase in amount				Addition			
		All employees	Uniform ¥10,000 increase in basic salary							
3	Those eligible for a salary increase	All employees	Increase				Addition			

Career development support

We implement various initiatives to provide opportunities for employees to autonomously develop their careers and face themselves.

Career development support	<ul style="list-style-type: none"> Self-reporting system (transfer to the department that employees desire) In-house job posting system (in-house personnel flow measures) Sales grade system (career formation)
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Self-development support	Provide support for qualification acquisition and optional training for voluntary participation
360-degree feedback	Understand own characteristics with feedback from multiple people (conducted once a year)
Action plan	MBO (Management by Objectives) for all corporate staff (approximately 2,000) and some technical personnel. Encourage the target's growth through regular interviews with his/her supervisors and feedback on the target's self-planned annual goals and their progress.

Investment for Growth (Developing Human Resources)

Promotion of Diversity, Equity, and Inclusion Materiality (5)

In order to be a company that is continuously needed for a long period of time, it is important to anticipate changes in the world and constantly create business models that meet the needs of the times. OTSUKA CORPORATION strives to increase diversity as an

organization by embracing each employee's diversity. We will continue to aim to be a company that achieves competitive advantage and sustainable value creation by developing a comfortable working environment for all employees.

Promoting DX in recruitment activities

OTSUKA CORPORATION interviews many students, and hires approximately 350 new employees each year. We have embraced students with diverse personalities and worked to promote DX in our recruitment activities to improve UX (user experience).

AI analyzes and quantifies facial expressions and posture based on recorded data of online interviews. We have implemented a PDCA cycle to improve the accuracy of interviews, such as visualizing the practical knowledge of skilled interviewers in our joint research with Kobe University. In addition, data

obtained in the research is also utilized in the post-employment 1-on-1 interviews to implement initiatives to retain human resources.

These initiatives were recognized, and we received the 7th HR Technology Awards* "Award of Excellence in Recruitment" in 2022.



*HR Technology Awards: Awards to recognize excellent HR technology and HR big data initiatives and services in Japan (supported by: Ministry of Economy, Trade and Industry, etc.)

Job-based recruitment (acquisition of highly specialized human resources)

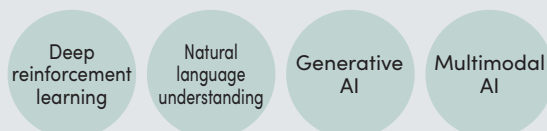
In order to ensure competitiveness in response to the rapid digital shift of society, we conduct job-based recruitment to acquire highly specialized human resources such as AI engineers and data scientists.

In October 2022, we hired graduates from the Indian Institutes of Technology, a university known worldwide for producing outstanding human resources.

They are working in pairs on four themes related to AI infrastructure research to create new social value and develop solutions. We will continue the same recruitment activities in 2023 and beyond, to acquire

excellent human resources with advanced expertise all over the world.

Four themes related to AI infrastructure research

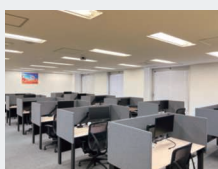
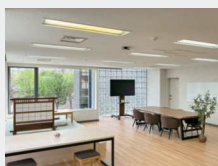


CASE | AI Lab

We are developing an environment in which highly specialized human resources can further demonstrate their abilities. In AI Lab, we are working to strengthen OTSUKA CORPORATION's AI technology capabilities, such as research of scientific English papers and development of algorithms.

We will promote diversity, equity, and inclusion by having employees in Japan and overseas work together and mutually embrace diversity and values.

<Upper left> AI Lab
<Lower left> Concentration room
<Right> Four employees from Indian Institutes of Technology



Promoting the active participation of women

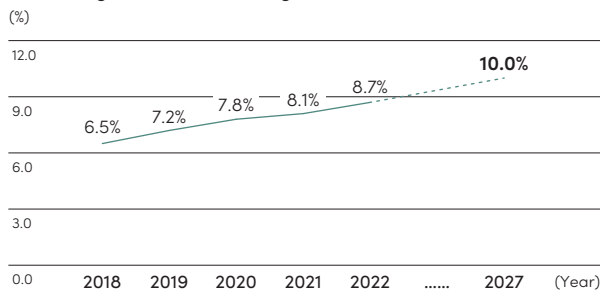
We continue our initiatives to create a comfortable working environment for women by establishing the “Women’s Advancement Promotion Project Secretariat” in 2011, and in 2014 starting operation of the “Women’s Hotline” as a consultation desk for female employees to ask for help on issues such as pregnancy and childbirth.

In the five-year action plan that will start in 2023, we will set targets for **① percentage of female managers**, **② rate of employees taking childcare leave**, and strive to **③ enhance systems**, thereby balancing work comfort and job satisfaction.

① Percentage of female managers

We will aim to increase the percentage of female managers to 10% by 2027 (we aim to early achieve this goal and revise it upward) through encouraging female employees to participate in leadership development training such as Otsuka Management College (P.44), and enhancing systems (③).

Percentage of female managers



② Rate of employees taking childcare leave

While female employees are increasingly taking childcare leave, the challenge is that childcare leave for male employees is not yet widespread. We will improve this situation through ensuring awareness of the system and training, and aim to achieve a 100% childcare leave

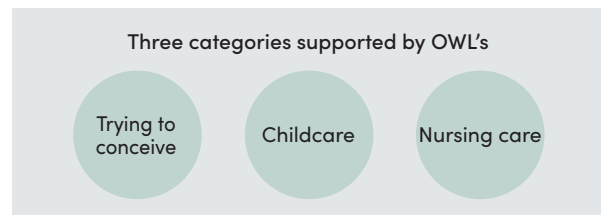
taken by both male and female employees in 2027. By encouraging male employees to take childcare leave, we will foster a corporate culture that is positive toward childcare, and support diverse work styles.

	2021	2022	2027
Male employees	15.9%	39.3%	100%
Female employees	100%	100%	100%

③ Enhancement of systems

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

*OWL’s : Otsuka Work Life Support



- Trying to conceive**
 - Support for the cost of fertility treatment
- Childcare**
 - Support for enrollment in company-led licensed daycare centers
 - Support for the cost of using satellite office with a kids' space
 - Support for babysitting costs
 - Support for the cost of using private after-school centers
- Nursing care**
 - Support for the cost of using nursing care and nursing care assistants
 - Support for the cost of using housekeeping services

Initiatives for a society with diversity

Employment of persons with disabilities

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

LGBTQ

OTSUKA CORPORATION protects the human rights of all employees, respect their personalities, stipulate that any form of discrimination is not allowed 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 people who are LGBTQ.

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.

OTSUKA CORPORATION is continuing activities to promote and raise awareness with the cooperation of the Guide Dog & Service Dog & Hearing Dog Association of Japan, including the appointment of the service dog “Luke-kun” as a special employee serving as “Barrier-Free Ambassador for the Heart.”



Luke-kun, our second-generation special employee

Investment for Growth (Developing Human Resources)

Human Resource Development Materiality (6)

OTSUKA CORPORATION supports the growth and self-fulfillment of its employees. In order to contribute to customer growth and continue to grow sustainably, the growth of each employee is crucial. As an employee of OTSUKA CORPORATION, we provide various support systems and opportunities for group

and optional training for our employees to grow not only as a businessperson, but also as an individual.

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

Company-wide training system

Company-wide training largely consists of four categories. A wide range of training programs are systematically prepared to help each employee acquire knowledge and skills they need.

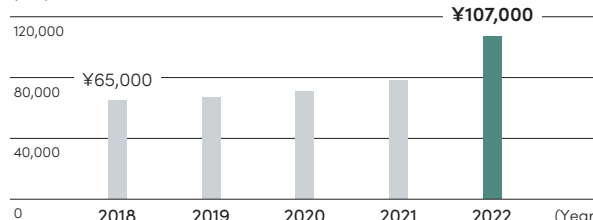
Training by division	Employee training to acquire the expertise, skills, and know-how required in their division	-		
Training by job category	Employee training to acquire the expertise and skills required for their job category	Sales	Technical	Corporate
Training by job level	Employee training to acquire knowledge and skills required of their job level and in accordance with their individual level of growth	OTSUKA Leader's College and OTSUKA Management College		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	

Training costs per full-time employee

Training costs per full-time employee in 2022 was ¥107,000 (+36.5% compared to the same period last year), increased significantly from the previous year.

Amid an ever-changing business environment, each customer's management issues are different. OTSUKA CORPORATION will strive to develop human resources who can always think and act on their own from the customer's point of view, and continue its initiatives.

Five-year change in training costs per full-time employee (Yen)



Support for qualification acquisition

We have a support system in place for employees to acquire qualifications by providing necessary expenses and incentives when they acquire them. A total of approximately 13,000 employees (as of the end of December 2022) have acquired qualifications, with 628 and 30 employees acquired the AI-related G-Certificate and E-Certificate*, respectively (as of the end of December 2022; consolidated group results). Acquisition of some qualifications are incorporated into the employee evaluation system.

Name of encouraged qualifications (Excerpt)

Systems Auditor	Information Technology Strategist	Fundamental Information Technology Engineer	Applied Information Technology Engineer
Information Security Management	Small and Medium Enterprise Management Consultant	G-Certificate	The Official Business Skill Test in Bookkeeping

*G-Certificate and E-Certificate: Certification test sponsored by Japan Deep Learning Association

CASE Support for acquisition of advanced AI certificate

We support sales personnel in acquiring the E-Certificate, an advanced AI certificate for engineers. As E-Certificate requires specialized knowledge, such as applied mathematics, sales personnel accounts for only 2% of those who pass the test.

However, in order to ensure that sales personnel can also acquire advanced specialized knowledge, we have started supporting 36 applicants who are preparing for the test to be held in August 2023. By encouraging individuals to acquire knowledge and raise the level of AI literacy of the Company, we will strengthen our AI solution proposals.

Nurturing DX professionals

Since the days when the concept of "DX" itself did not exist, OTSUKA CORPORATION has continued to increase its productivity by utilizing IT. Since April 2021, we have been a "DX Certified Business Operator" established by the Ministry of Economy, Trade and Industry, and support our customers' DX promotion by utilizing its know-how.



We are promoting the development of DX human resources through practice by incorporating AI solutions of capital and business alliance partner dotData (P.32) into our operations, and by having our data scientists transfer skills gained in the operations to other user divisions.

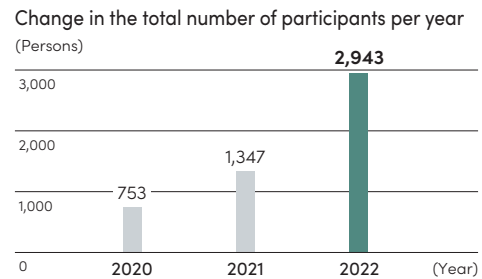
Reskilling

We provide opportunities for reskilling to our employees through the use of online learning platform tools which offer a large number of courses. The platform tools present recommended courses on topics of interest registered by employees and encourage efficient learning that is appropriate for each employee.

Employees can improve their operational skills by gaining knowledge that is both practical and up to date. We started using this online platform tools in August 2022, and over 1,100 employees have started their learning as of the end of December (learning hours from August to December 2022 = 6.5 hours/employee).

Optional training

We offer opportunities to attend lectures by experts in various fields, with a focus on human skills. Attendance is voluntary, and each employee can choose the content of the course according to his/her own career plan. A total of approximately 3,000 employees attended the course in 2022. We strive to provide opportunities for our employees to grow and gain self-fulfillment.



Fostering management and next-generation leaders

Fostering management and next-generation leaders is an important management issue. We continue our initiatives to that end, including the launch of a specialized development program in 2015, and reclassifying target job levels in 2022. In addition to

acquiring management literacy, this program is implemented as a curriculum that allows participants to acquire practical competence by providing various output opportunities both internally and externally.

Fostering system for management and next-generation leaders

		Purpose	Number of students*2	Themes
OTSUKA Leader's College	Senior Leader College	Development of next-generation Directors	15	Integration of knowledge and experience
	Leader College	Development of next-generation General Managers	73	New practice opportunities
OTSUKA Management College	Next-Generation Leader College	Development of next-generation Managers	216	Acquisition of knowledge
	Leadership Development Program*1	Development of next-generation Managers	183	Fostering a foundation

*1 Leadership Development Program: newly established in 2022 *2 Cumulative total number of active students and graduates (as of March 1, 2023)

Data Utilization (Enhancing the Ability to Respond to Customers)

We continue our initiatives to utilize the accumulated information to support our sales activities.

OTSUKA CORPORATION was transformed to become fundamentally data-driven with the full-scale operation of Otsuka Strategy in 1998. With the introduction of a scientific sales style through the launch of SPR in 2001, productivity has increased on a long-term sustainable basis.

Today, the evolution of AI, IoT, and other technologies is remarkable. The diversification of customer contacts and strategic use of big data obtained from these contacts will become an important source of our competitiveness. OTSUKA CORPORATION has a solid customer base, and strengths of having a wide variety of customer contacts. We aim to provide more attentive services that will be close to our customers and make them more satisfied by analyzing the information using AI.

Otsuka Strategy and SPR

The Otsuka Strategy launched in 1993 was designed to build the foundations for our future growth by addressing the Company's structural issues at that time. Coupling the clean data obtained through

Background of the Otsuka Strategy project

In 1992, OTSUKA CORPORATION's operating sites were independent, with responsibility for the majority of operational tasks given to them. The advantage of this was that it generated strengths such as speedy decision-making and on-site mobility, but by then the

The two pillars of the Otsuka Strategy

Our Otsuka Strategy has two main pillars. Centralization of operational tasks and 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. The sites were able to focus on the sales activities that were their essential role

SPR (Sales Process Re-engineering)

It was our SPR system that utilized the clean data obtained through the standardization of processing criteria under Otsuka Strategy, and developed it into a strategic sales tool (released in 2001 and started full-scale operation in 2003).

This uniquely developed system, which combines CRM (customer relationship management) and SFA (sales force automation), has made it possible to utilize customer information, which had been managed on an individual basis, as information assets of OTSUKA CORPORATION. The foundation of the scientific sales style established at that time continues to contribute to productivity improvements today.

Otsuka Strategy with SPR, a strategic sales tool we had uniquely developed, has drastically changed OTSUKA CORPORATION's sales style.

structural issues arising as a result of growth in company size had become starkly apparent. Large-scale and bold reforms were needed for OTSUKA CORPORATION to transform its management style into one suitable for the new era to come.

and productivity improved. On the head office side, by centralizing operational tasks, it became possible to accumulate a large amount of data and know-how.

Automatic booking of sales upon shipment, was also implemented in conjunction with the centralization. As a result of eliminating arbitrariness by automatic booking, the process had reinforced checks and balances and ensured transparency of financial figures.

<Concept of SPR>

Know the exact profile of our customers

Know the transaction history with our customers (past)

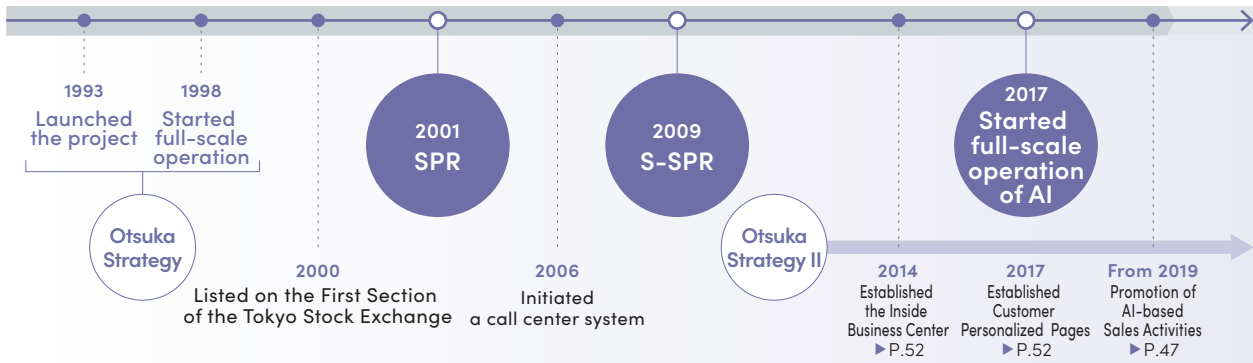
Know the status of proposals made to our customers (present)

Know the requests and needs of our customers (future)

Boost customer satisfaction and efficiency at the same time through science-based sales

Productivity Improvement ▶P.16

Development of OTSUKA big data

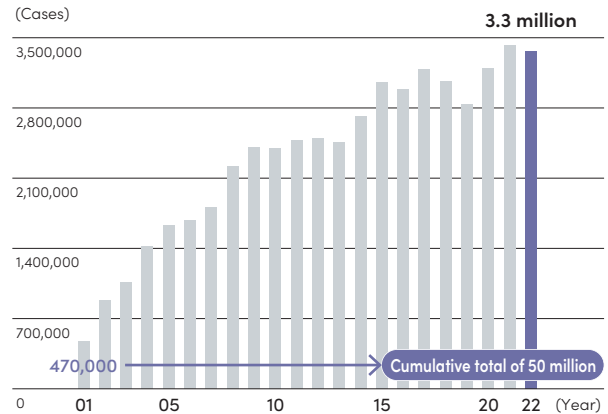


OTSUKA big data

All of OTSUKA CORPORATION's sales activities are recorded in SPR, which allows data to continue accumulating. The number of business negotiation data, which was 470,000 cases per year when SPR was first introduced, exceeded 3.3 million cases in 2022, with a cumulative total of over 50 million cases.

Other than field sales business negotiation data, SPR collects a variety of contact information, including inside sales and web transactions, in addition to history of call center inquiries and technical support. We began to enhance the promotion of AI-based sales activities in 2019, utilizing the big data accumulated over the years.

Number of SPR business negotiation data per year



Data cleansing for AI utilization

In order to increase the effectiveness of data analysis by AI, the accuracy and quality of data itself are extremely important. OTSUKA CORPORATION has developed a cleansing logic that corrects and



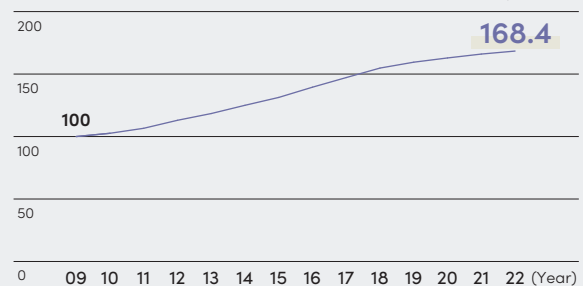
normalizes omissions, etc. in business negotiation data by utilizing AI that is skilled in natural language processing. We strive to develop highly accurate data useful for AI analysis.

CASE S-SPR (SPR for technical personnel)

Just as SPR has improved productivity of sales personnel, S-SPR is our initiative to improve productivity of technical personnel (released in 2009).

S-SPR, which was uniquely developed to manage the behaviors of technical personnel and reform the business process, incorporates a variety of functions to improve service levels while controlling the number of technical personnel. In utilizing its skills inventory and location information, S-SPR can provide prompt and accurate service to customers, as it automatically optimizes assignments in the event of failure.

Number of multifunctional devices maintained per engineer*



*Change with 2009 as 100

Data Utilization (Enhancing the Ability to Respond to Customers)

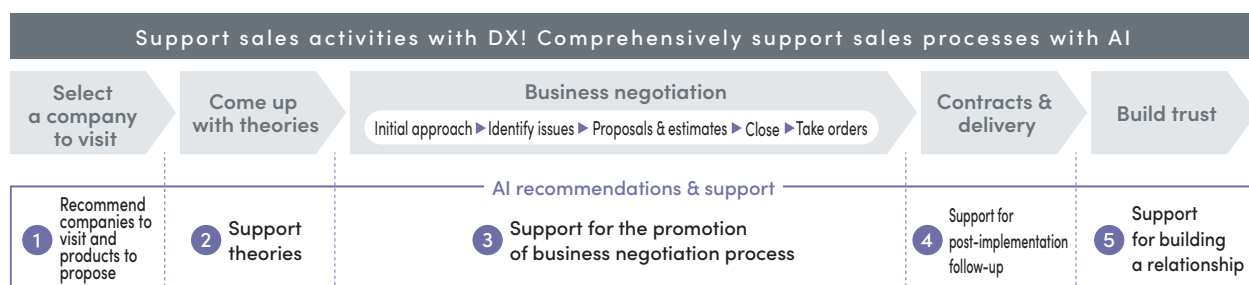
Promotion of AI-based Sales Activities

AI predicts the optimal solution, optimal channel, and optimal timing for each of our customers, by analyzing and learning our customers' purchasing and contact patterns. With the addition of AI analysis to conventional knowledge, sales personnel can gain new insights as well as use AI to support their own

theories. In this way, we are promoting the formation of smart sales which further evolves traditional scientific sales, by achieving the enhancement of the ability to respond to customers and improvement in sales productivity.

Sales processes and specific functions

Sales activity processes are divided into five categories, and AI supports sales activities in a comprehensive manner covering all processes.



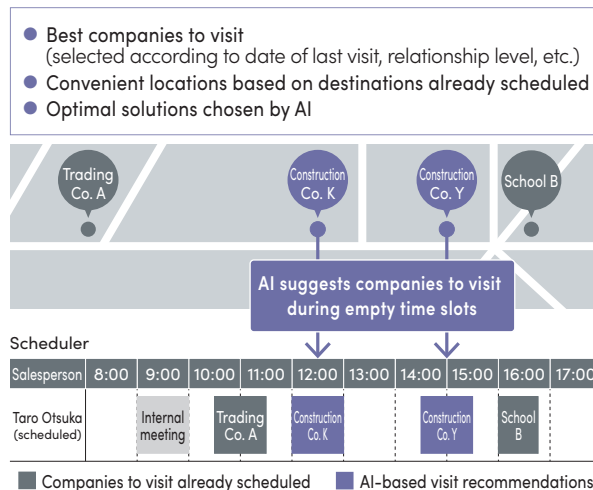
1 Recommend companies to visit and products to propose

AI recommends an optimal solution for the customer, unbiased toward products that the individual salesperson specializes in.

It is up to the salesperson to decide whether to actually visit the suggested company. In this way, we are repeating the process of verifying how salespeople interpret and make use of the AI's suggestions without merely following AI instructions. We are continuing to evolve while working to improve the AI's accuracy by providing it with feedback on the results of visit so that both the salesperson and the AI can engage in a PDCA (plan-do-check-act) cycle of mutual learning.

2 Support theories

AI supports salespersons in verifying their theories. We classify industries in Japan into over 600 categories and provide an environment for learning knowledge useful for sales activities such as economic conditions and trends per customer industry. We are working to expand the areas of its utilization including having AI predict the recommended seeds for needs proposals that will be useful to customers one year from now, based on solutions implemented by customers' peers and the order in which they are implemented.



3 Support for the promotion of business negotiation process

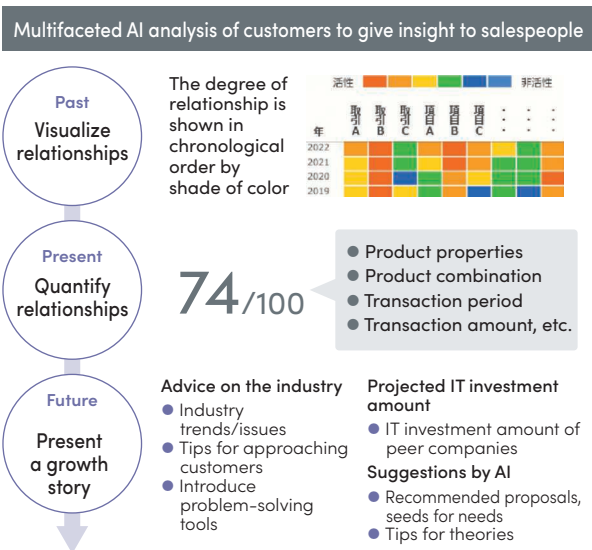
AI, which has learned sales knowledge and behavior patterns, continues its support toward the conclusion of business negotiations. AI analyzes the order, timing, and omissions of business negotiations, and selects actions necessary to advance the negotiation process. In addition, AI learns the countless words of advice from managers and provides the salesperson with effective advice to help optimize business negotiations while appropriately responding to our customers.

4 Support for post-implementation follow-up

AI analyzes the operational status of systems delivered and inquiries from customers, and prompts the salesperson to give follow-ups when required. By utilizing AI to ensure that the customers are never left unattended after sale, we strengthen relationships with our customers through reliable follow-ups and made them the lead to the next business negotiations.

5 Support for building a relationship

In order to build relationship of trust with customers, it is important to know them. AI analyzes the relationship we have built with our customers (visualization), the current state of the relationship (quantification), where we want to go, and what we are trying to do. We use the analysis to build relationships with our customers.



CASE How AI helped us identify a lead

Promotion of AI-based sales activities is still only halfway through. However, AI can offer a second opinion for seasoned salespersons and can be a useful tool for new/mid-career salespersons to make up for their lack of experience. In one case, a salesperson obtained information that a customer is relocating from the AI's insight that the customer had placed a large order for cardboard boxes through tanomail. The salesperson seized the opportunity and won an order for the entire IT environment of the new office after the relocation. In

another case, the AI's insight that a customer had been increasing revenue over the past several years enabled us to receive orders from the customer to improve its internal infrastructure to accommodate the increased workforce. As these cases show, as AI pinpoints changes in information that could be overlooked by humans alone, and humans add meaningful interpretations to them, more opportunities are created to support customers than ever before.



AI Assistant (personal secretary app)

AI Assistant is a smartphone app uniquely developed by OTSUKA CORPORATION for the purpose of improving the convenience of sales activities. In addition to various AI-based sales support functions described so far, various tasks, including commands for preparing estimates and confirmation of delivery date, which occur during sales activities can be

performed with simple operations such as voice instructions.

The number of users and uses have continued to grow steadily with ongoing functional enhancement on a regular basis. In 2022, the usage count of the app reached approximately 1.90 million times.

POINT 1 Specific features

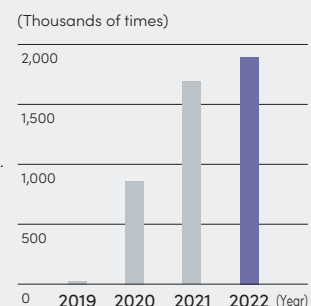
AI Assistant helps to improve sales productivity by leveraging the convenience and mobility of smartphones before and during business negotiations. Chat advice and stamps can be sent to members of the team as if they were on a social networking site, leading to improved teamwork.

A dedicated agent is assigned to each salesperson as a friendly avatar to provide support, enabling more detailed solution proposals.



POINT 2 Trends in usage count per year

- Chat-style consultation
- Information search
- Suggestions by AI
- Commands for preparing estimates, etc. (ongoing functional enhancement)



Data Utilization (Enhancing the Ability to Respond to Customers)

OTSUKA CORPORATION, Strengths in 

Machine learning and deep learning are becoming increasingly advanced, and we are now in an era where how well a company utilizes AI is directly linked to its competitiveness.

OTSUKA CORPORATION strives to strengthen its AI technology capabilities, including building a multi-AI infrastructure and attracting highly specialized human resources (P.41). Furthermore, in addition to projects

led by the head office, we promote internal education to deepen understanding of AI through grassroots activities led by each site. At the same time, we actively form alliances with partners who have strengths in AI to conduct joint development of solutions that will lead to improved value propositions to customers.

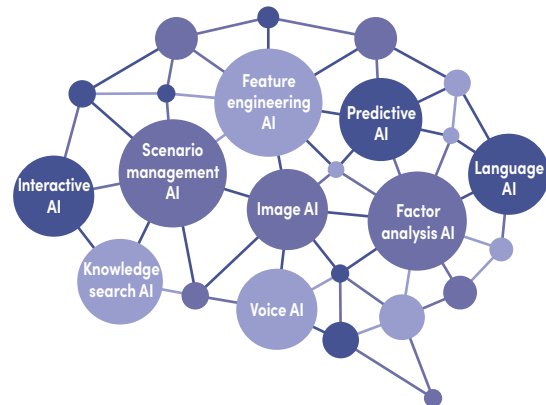
AI pipelines

Each AI has its area of expertise, such as dialogue, feature engineering, prediction, and image analysis. OTSUKA CORPORATION has built its unique AI infrastructure based on multi-AI which combines each

AI's area of expertise by leveraging our characteristics as multi-vendor. In addition, we also work to accumulate intellectual capital, including acquisition of business model patents that apply AI technology.

AI business model patents

2021	AI Service Utilization Support System (Cost & quality assurance patents with AI pipelines)
	AI Service Utilization Support System (Cost & majority rule patents with AI pipelines)
2022	String Data Processing System (String data classification patent using image processing AI)
	Business Card Management System (AI automatic detection patent for changes in business card data)



System and internal education

We are promoting internal education to promote the use of AI.

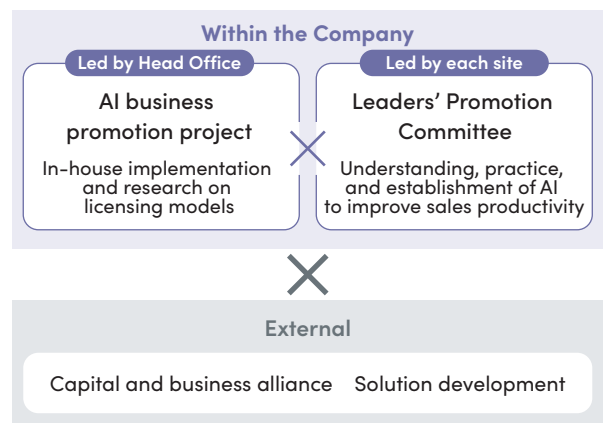
In 2019, we launched an AI business promotion project led by the Head Office. We continue to study the introduction of AI within the Company and conduct research on licensing models that will be the optimal solution for our customers. In addition, we are also committed to the development of AI-related personnel by encouraging them to acquire relevant qualifications.

In 2022, we launched the Leaders' Promotion Committee led by each site to facilitate the collection of specific user feedback. AI promotion leaders elected in each region promote good practices horizontally and summarize issues and requests (34 leaders were elected nationwide as of February 2023).

Through these activities, we are studying specific ways to incorporate AI into our sales activities and actions for its establishment, in addition to understanding AI itself.

In parallel with that, we will work to develop AI solutions by gathering a wide range of insight through activities including alliance with external partners.

Support for acquisition of advanced AI certificates ▶ P.43
Joint Development of Solutions ▶ P.50

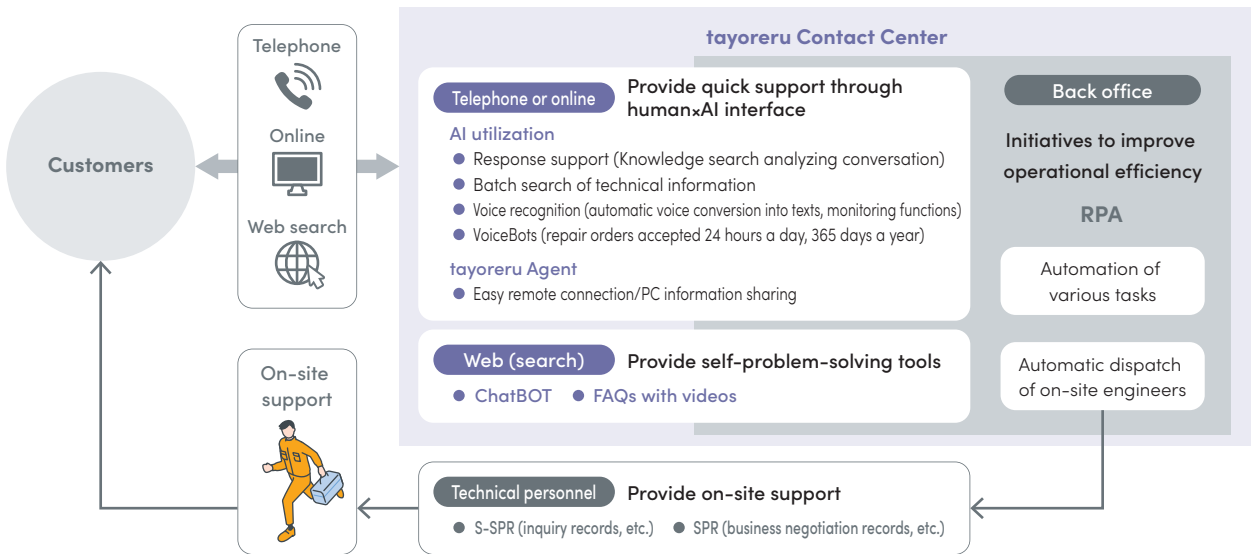


tayoreru Contact Center

tayoreru Contact Centers are central bases for maintenance services provided by OTSUKA CORPORATION. Experts in various fields provide solutions to customers' problems, including post-implementation operation support, maintenance, and providing information, supporting them via telephone

or remotely. We use a variety of technologies, mainly AI, to improve value proposition to our customers through the achievement of internal KPIs such as response rate and abandonment rate, and receive high appreciation from our customers.

2022 customer satisfaction survey of call center for corporate technical support ▶ P.12



Joint development of solutions

We develop solutions jointly with partners who have strengths in AI. The system linkage has gone live between our "integrated DX package," which helps our customers, mainly SMEs, build an infrastructure to promote DX, and "Accounting freee," which has a high market share in cloud accounting systems.

In addition, by incorporating dotData's AI functions as a standard feature, we are developing solutions that will enable advanced analytics and projection without having to invest in data science basic technology or infrastructure.



CASE Toward productive joint development (dotData's AI analytics service)

We support DX promotion of SMEs with AI solutions of dotData (P.32), with which we concluded a capital and business alliance agreement in April 2022. By sharing know-how and customer needs obtained through the process with dotData, we are working on quick solution development.

Customer classification

<Customers with improved productivity in sales activities>
We conducted our sales activities targeting lead customers selected by AI, and achieved a contract ratio approximately seven times higher than conventional sales activities.

Demand forecast

<Customers with improved production operations>
As a result of AI's demand forecast based on product attributes, we have succeeded in controlling the risk of out-of-stock/dead stock and reduced the burden of inventory management operations.

Forging New Relationships with Customers

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. We had approximately 160,000 tanomail customers at the time and were able to visit only 50,000 of these companies in person to explain the price hike. We had no choice but to notify the remaining customers by postcard, and there were some customers whom we were not able to contact at all.

We were 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. Recognizing this issue, we launched Otsuka Strategy II, a project to forge new relationships with customers.

Otsuka Strategy II

Get close to our customers through coordination among three customer interfaces

In parallel with the effort to support Real activities by AI (P.47), we are strengthening the functions of Web and Center. In Otsuka Strategy II, we are striving to forge new relationships with customers by placing these three channels on the customer interfaces.

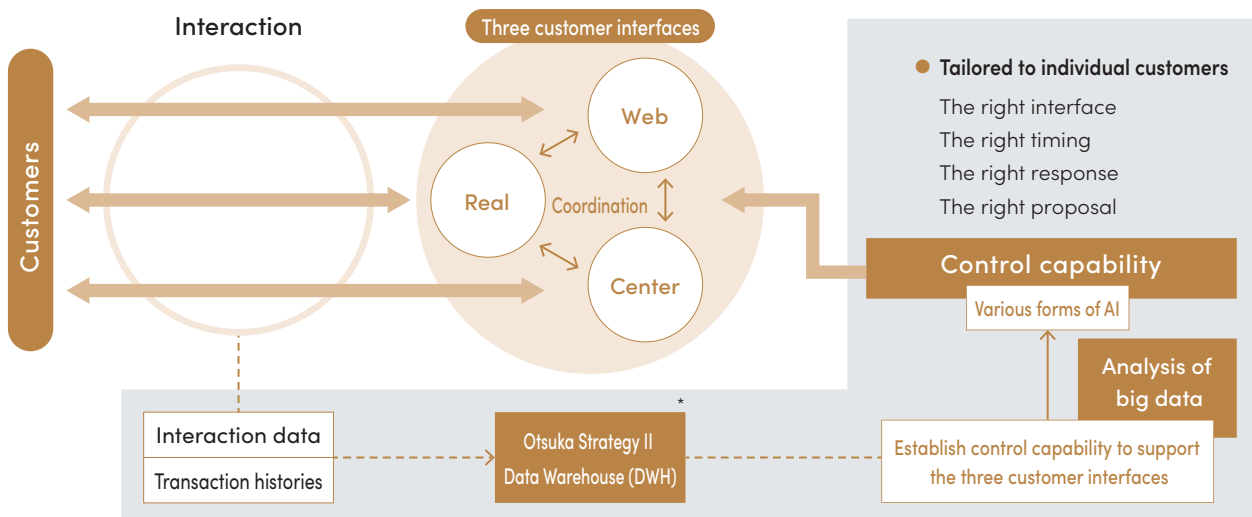
As work styles continue to diversify, circumstances vary from one customer to another as well. Even for the same customer, sometimes it is important for Real face-to-face interaction with the customer, which we have been good at, while at other times interaction with the customer through the Center is the most appropriate option. Or sometimes it may be best for customers to be able to easily solve their issues by themselves by taking advantage of the characteristics of the Web, which is available 24 hours a day, 365 days a year.

In order to respond to the circumstances that are

different for each customer, it is not adequate for these channels to assume their respective roles individually. We will be able to earn the trust of our customers only when the three channels work in coordination and get close to our customers as a united frontline.

We will strive to forge relationships with our customers so that we will be able to pride ourselves on knowing them better than anyone else, no matter when and where they contact us, and that they will choose to consult us about their small problems. We believe that, by doing so, we will be able to support our customers with our wealth of solutions that cover the needs of their entire office and have relationships longer and deeper than ever before.

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



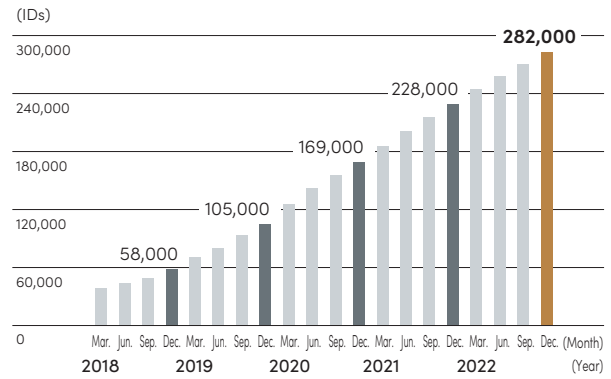
*OTSUKA big data, an aggregate of customer data, interaction data, transaction histories, etc.

Web Customer Personalized Pages

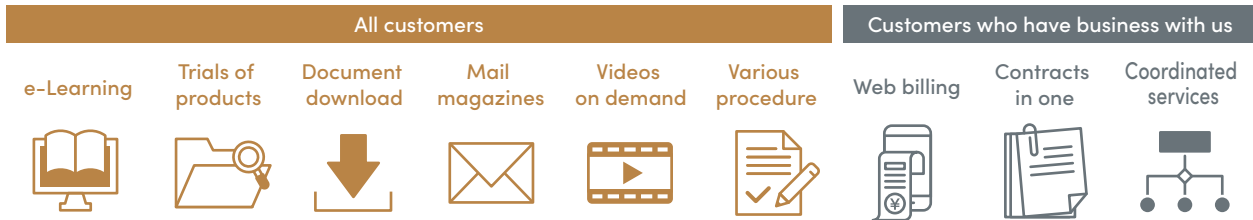
We offer various services, such as business e-learning, free trials of products, etc. through these pages as a contact point on the web for us to get close to the customers. We issue an OTSUKA ID to each of the users in customer companies. The screen display is customized for each of them, giving access to contract details and billing statuses depending on the level of their authorization. We are striving to make the pages a customer portal that is convenient for users.

We are striving to further improve convenience by incorporating the pages into our other solutions, such as OTSUKA GATE (P.80), which has been working in coordination with the pages since 2022.

Trends in the number of OTSUKA ID registrants



Primary services offered on the Customer Personalized Pages



Center The Inside Business Center

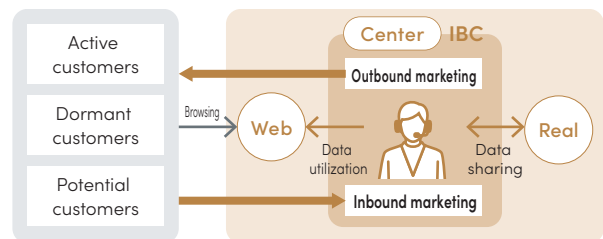
At the Inside Business Center (IBC), we work to coordinate with our Real and Web support services and seek to create and sustain relationships with a large number of customers.

Through outbound marketing centered on tanomail products and inbound marketing via interfaces such as the OTSUKA CORPORATION website, we reach out not only to active customers, but also dormant and potential customers.

We strive to take effective and efficient approaches by utilizing AI's predictive analytics and digital

marketing to make recommendations and work to strengthen channel coordination by sharing lead data.

Forge and sustain relationships with customers

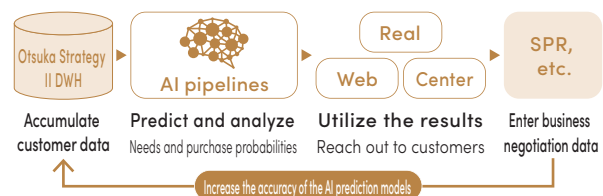


Analysis of big data

In 2015, we established an organization that analyzes the big data we have accumulated (P.46) and supports the three customer interfaces as a control tower. Data scientists utilize the AI pipelines (P.49) to predict and analyze customer needs and purchase probabilities.

The Real, Web, and Center interfaces utilize the results of the analyses and feed back interaction data to the

Otsuka Strategy II DWH. We thus continue our effort to improve the accuracy of the predictions and analyses.



Forging New Relationships with Customers

Maintenance and Expansion of the Customer Base

Materiality (1)

The number of customers of OTSUKA CORPORATION is increasing year by year. Responding to diversifying customer needs leads to the expansion of business domains, and the accumulation of such know-how is the source of an increase in added value that results in

the growth of OTSUKA CORPORATION. We will engage deeply with each of our customers, while increasing the number of new customers, and support their growth to continue to grow together with them.

Realize management based on strong trust and satisfaction of customers to maximize sales

Increase in the number of customers



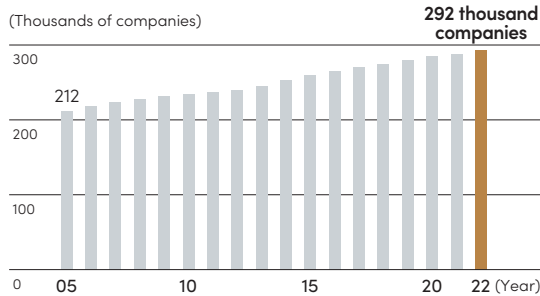
Increase in net sales per company

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

In forging new relationships with customers through Otsuka Strategy II, we aim to build long relationships with customers once they have started doing business with us. We are steadily expanding our customer base by increasing the number of new customers through diverse customer interfaces, while striving to maintain and enhance the satisfaction of existing customers.

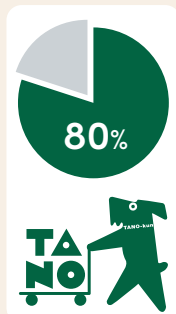
Customer composition by annual sales/industry ▶ P.15

Number of companies with transactions (non-consolidated)



tanomail opens up the doors

tanomail is the door to the business. Approximately 80% of the companies which started business with us did so by purchasing on tanomail. We strive to build relationships of trust with our customers through the business of office supplies, which are regularly and frequently purchased.



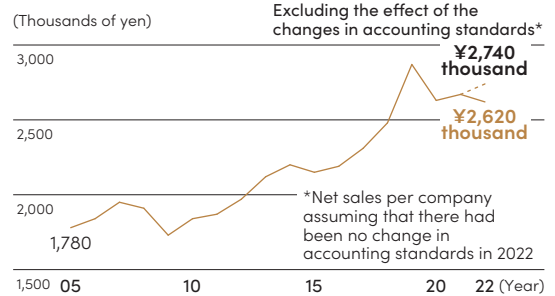
tanomail: Ranked No. 1 in the 2022 customer satisfaction survey of corporate mail-order service by J.D. Power Japan, Inc.

Solving small problems to deepen relationships

Providing solutions to customer's small problems over and over will increase the number of solutions we provide and ultimately lead to the offering of all solutions required in the office. We are striving to increase net sales per company by strengthening the use of AI and promoting our support of the entire office of the customers more than ever.

Promotion of AI-based Sales Activities ▶ P.47

Net sales per company (non-consolidated)



Long and continuous business to support the entire office of the customers

Approximately 70% of the companies that we have transactions with are customers who have been doing business with us continuously for more than five years. Such customers are likely to give us business approximately 3.5 times larger than customers who have been doing business with us for less than five years.

We will forge long and deep relationships with our customers by solving their small problems to accumulate trust and providing continuous support in keeping with their growth.

Customers for less than five years

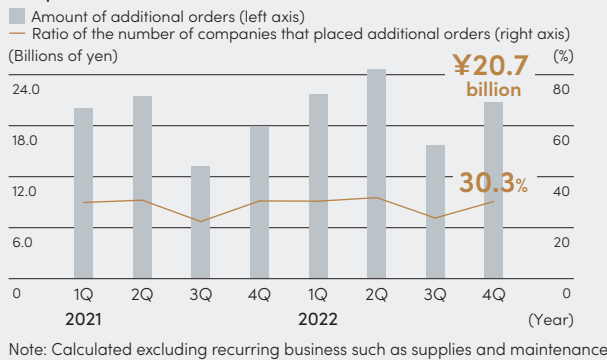
Customers for over five years

3.5 times larger business

POINT Short-term and long-term customer management indicators

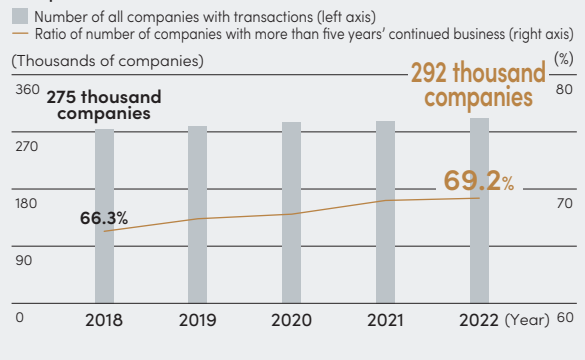
One of the short-term indicators OTSUKA CORPORATION uses to measure its progress in strengthening relationships with customers is the quarterly amount of additional orders and the ratio of the number of companies that placed additional orders (Graph 1). We monitor the quarterly change in relationships of business with customers.

Graph 1



One of the long-term indicators that we monitor throughout the year is the ratio of the number of companies with more than five years' continued business (Graph 2). We judge whether we have been able to perform activities that led to maintaining and expanding the customer base by comparing the number of all companies with transactions, which is the denominator, and this ratio.

Graph 2



Plenty of room to grow

If we are able to build long and continuous relationships with customers, we will be able to provide greater value to society and the customers than ever before. To do so, it is important to keep on turning the growth cycle of our value creation model (P.19).

As for each element of the growth cycle (support the entire office of our customers, expanding business performance, investment for growth, data utilization, and forging relationships), we are steadily working on the identified issues, including materiality items (P.21). As a result, we have been able to continue expanding our customer base.

However, only a third of the approximately 292,000 companies that did business with us in 2022 have purchased multiple products from us, and the ratio has not changed for a long time.

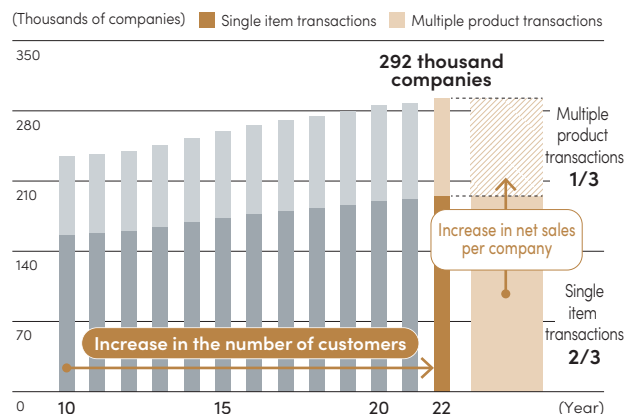
As our customer base has been expanding through the acquisition of new customers, the absolute number of customers that have purchased multiple products has continued to increase even though the ratio has remained the same. Still, two thirds of the customers have purchased only one product from us, and we can only assume that these customers purchase more products from other companies.

Considering our abundant solutions that can support the entire office of our customers, it is obvious that

there is still a lack of proposals that precisely meet customer needs. However, it also means that there is still a lot of room for our growth.

To solve the issue, we strive to build long and continuous relationships with our customers by continuing to refine each element of our growth cycle. If our customers let us support their entire office to support their growth, we will be able to grow together with them. We believe that it will lead to the realization of our Mission Statement.

Number of Corporate Customers and Sales Structure



Dialogue on Sustainability

Climate change initiatives at OTSUKA CORPORATION

Trying out and verifying various solutions ourselves to offer them to customers in a way that best suits them—

Creation of new “Environment”×“Economy” value with our unique business model



EY Japan
Climate Change and
Sustainability Services (CCaSS) Leader

Keiichi Ushijima

OTSUKA CORPORATION
Managing Officer
Head of President's Office, General Manager of Compliance Office

Koichi Hisano

Career Summary EY Japan Climate Change and Sustainability Services Leader (CCaSS) since 2014. Director of the General Incorporation Association of ESG Disclosure Study Group and Member of Carbon Pricing Subcommittee, Global Environment Committee, Central Environment Council, Ministry of the Environment.

Career Summary Joined OTSUKA CORPORATION in 1986. Appointed Manager, Compliance Office in 2005, General Manager of Compliance Office in 2014, concurrently appointed General Manager of President's Office in 2015, and has been an Managing Officer since 2019 (incumbent). He also serves as Vice-Chairperson of the Sustainability Committee, which was established in 2021.

Environmental issues put on the management agenda in 2000, upon going public

Hisano OTSUKA CORPORATION started considering environmental issues as an important management challenge around 2000. We started launching environmental protection initiatives in earnest, including setting up a new Environmental Management Office^{*1} in January of that year, establishing our Environmental Policy in April, and obtaining certification for ISO14001^{*2}, the international environment standard, at our head office and 14 major locations around Japan in December. Since then, we have continued with activities aimed at conserving energy and resources and reducing waste at our locations nationwide in an effort to raise our standards.

Outside the Company as well, we have rolled out a variety of environmental protection activities, including disaster assistance through a matching gift system, our “TANO-kun's Forest” project, which links overseas forest planting activities with the sale of FSC-certified^{*3} products, and assistance to environmental NGOs.

Ushijima On an international scale, environmental issues started becoming a full-fledged management agenda issue for many companies after the Paris Agreement in 2015. I am very impressed by your company's progressive spirit in practicing environmentally conscious management at such an early stage.

Hisano Our current President assumed the position in 2001, not long after the Company was listed on the First Section of the TSE^{*4} in 2000. Even back then, he held the belief that contributing to the global environment was important for responding to investors' expectations and for continued sustainable growth. In 2003, we announced our mission statement^{*5}, which includes the goal, “to demonstrate harmonious coexistence and growth with nature and society,” and even today, we continue with initiatives to embody that mission statement.

*1: Current Environment and Social Contribution Section, President's Office

*2: Certification obtained for 25 sites nationwide as of May 2023

*3: Forest certification system

*4: Transitioned to the Prime Market in 2022

*5: [Mission Statement](#) ▶P.2

Contributing to the expansion of the LED market, led by top management

Ushijima Earlier, you mentioned your social contribution activities on the environmental front. Could you tell me what you are doing in your business?

Hisano We have pursued new environment-related initiatives with the strong leadership of our top management. For example, determining that LED would be a solution that would lead to environmental countermeasures, we launched an LED lighting business from an early stage and began selling these products in 2008. Even in global terms, we were one of the first. At the time, there was very little awareness of LED in Japan, and some people were quite skeptical. However, when you consider the subsequent sudden expansion of the market, I tend to think that OTSUKA CORPORATION's initiatives were able to contribute in some small way to the popularization of LED and to the reduction of the environmental load.

Ushijima That is an excellent example of your top management's high degree of sensitivity and strong awareness of the environment, isn't it?

Hisano As a multi-vendor, OTSUKA CORPORATION is not bound to any particular manufacturer. To help our customers to "improve productivity" or "reduce costs," we first implement solutions in our own company, and propose to our customers those solutions that we have confirmed are effective in combinations that best suit the respective customers. This is a distinctive characteristic of our business model and one that we proudly consider to be one of our strengths. In our environment-related business as well, instead of setting numerical targets in advance and working toward them, if, in the pursuit of our core business on a day-to-day basis, we see a solution that could contribute to customers, we first try it ourselves and then propose it to customers. You could describe this as a kind of add-on business^{*6}.

Ushijima Engaging in social issues in a progressive way as a company even if it has not been part of the management plan, would be impossible without the strong leadership of top management. I believe that this is also a point that has been well received by investors and other stakeholders.

*6: Provision of Environmental Solutions ▶P.63

Expanding the debate with new perspectives gained from reporting standards

Ushijima As you would know from the fact that global targets that exceeded the 2015 Paris Agreement were declared at COP26 in 2021, global responses to climate change have accelerated in the past year, and companies are now being called on to further step up their countermeasures and disclose more information. In Japan, with the disclosure of climate change information having become virtually

mandatory for companies listed on the Prime Market, many companies have started to announce their road maps for the realization of carbon neutrality by 2050. However, these initiatives, which had been highly regarded until two years ago, have now become the expected norm. We could say that the trend of climate change response has already moved into a new phase.

Furthermore, in the IFRS Foundation, which is charged with formulating international accounting standards, there has been acceleration of discussions, including the announcement of draft reporting standards concerning climate change. It is important for companies to keep a close eye on these kinds of developments in the creation of new standards and be quick to respond to them.

Hisano OTSUKA CORPORATION announced its support for the TCFD recommendations and conducted information disclosures based on them in March 2023^{*7}. We also see the fact that we were able to organize the information in a way that aligned with the frameworks of "governance," "strategies," "risk management," and "metrics and targets" as a great opportunity in terms of pursuing constructive dialogue with investors going forward.

Ushijima The TCFD and other new international reporting standards present companies with new corporate governance perspectives and encourage more consideration within the company, which I think is another significant point. As companies disclose their various approaches and processes, and this information transcends the boundaries of those companies and is accumulated in a common data base for society as whole, we can expect to see even further evolution of management through the mutual use of that database. Japanese companies tend to seek out the "correct answer," but from a global approach, where there is no one right answer, one approach to reporting standards is to use them as a tool for raising their precision through repeated trial and error. Instead of thinking in negative terms of 'we even have to disclose this now,' I think it is important to adopt an attitude of using reporting standards to deepen debate and deliberations through new perspectives.

*7: Reporting in Line with the TCFD (Task Force on Climate-related Financial Disclosures) Recommendations ▶P.59

Now, the PDCA cycle is called for even in climate change responses

Hisano OTSUKA CORPORATION published its first Integrated Report in June 2022. We are only getting started with the disclosure of non-financial information, but while placing emphasis on continuity, I do see the need to keep raising the standard of the contents of those disclosures. If you have some advice, I would love to hear it.

Dialogue on Sustainability



Ushijima Although you did disclose data in your 2022 Integrated Report, it was not clear how the company evaluated those figures, whether they were on track or has fallen short. You might need to disclose the results of your own evaluations and verifications of the data and, if there have been failures, include what improvements you will make in your disclosures. Investors judge whether or not companies have a high degree of management ability to administer and control management resources appropriately both within and outside the company. It means that, if companies evaluate the data produced properly and are putting measures in place for the future, their governance proves effective. The day will eventually come when companies will be called on to turn the PDCA cycle on their climate change responses in the same way as they do for day-to-day business activities and to monitor the status of their initiatives.

Hisano Regarding the setting of targets, we submitted a commitment letter to the SBTi, which certifies Science Based Targets (SBT), and we expect to receive certification during the fiscal year ending December 31, 2023. Regarding the PDCA cycle, we will certainly give that serious consideration.

Achieving zero carbon in Scope 3 in conjunction with the ecosystem

Ushijima Recently in Japan, many companies have declared a target of achieving carbon net zero in Scope 3 by 2030 or 2050, and there is a growing trend to require environmental responses as a criterion in the selection of suppliers as a means of achieving that target. The automotive industry, which is exposed to intense global competition, is a typical example of this trend. Whether or not parts suppliers will be able to remain in the industry ecosystem will depend on their own progress in climate change responses, so a key concern for those companies for the past few years has been whether or not they will be able to raise their own environmental standards to the same level as that of their customers, the car

manufacturers.

Hisano Carbon net zero in Scope 3 is not something that can be achieved by OTSUKA CORPORATION alone. It is a challenge that should be addressed by our entire ecosystem. With that understanding, we formulated our Sustainable Procurement Policies and Guidelines in 2022, and we are in the process of seeking the endorsement of our partners^{*8}. OTSUKA CORPORATION has long strived to build relationships of trust with our customers and partners with the concept of creating an environment in which they will be glad that they did business with us. Going forward, it will be essential for us to share our objectives with stakeholders more than ever and to deepen our cooperation with them. As we move forward in promoting our initiatives, we will keep reviewing them so that we can take our mutual relationships into even better directions and explore what we can contribute to society.

*8: Sustainable Procurement Policies and Guidelines ▶P.61

Using social contribution activities to elevate the mindset of employees

Ushijima To pursue the reduction of CO₂ emissions specifically, it will be essential that companies work together with stakeholders based on a relationship of trust, and I believe that the key to that lies in the frontlines. It is important that each and every employee tasked with operations rethink things from a sustainability perspective and keep having discussions with customers and partners as the connection that links inside and outside the company.

Hisano We have long recognized the importance of employee education. To raise employees' awareness and to ensure that they can proactively put environmental protection activities into practice on an individual level, we have been actively conducting environmental education with e-learning since the beginning of 2000.

Ushijima Perhaps you could encourage employees to get involved in your forest planting projects and NGO assistance, and use them as a forum for embedding the company's vision and honing their individual environmental sensibilities.

Hisano I agree. We are already pursuing energy-saving and resource-saving activities with the participation of all employees in the form of the OTSUKA Eco-Action Plan (2021 to 2025), and I do feel that these activities have been effective in raising environmental awareness among our employees.

Ushijima It is important to continue with low-key efforts within the company as well, don't you think?

Hisano In terms of environmental protection and social

contributions, I am confident that, instead of trying to do too much at once, taking it one step at a time and doing what we can with certainty is what will lead to the realization of our mission statement. In 2021, we welcomed Outside Directors who have knowledge of ESG and the SDGs. We are now working on measures to take our initiatives in the right direction, receiving their advice along the way.

“ESG performance” as a new keyword alongside “cost reduction” and “productivity improvement”

Ushijima With industries’ and companies’ responses to environmental issues attracting attention, their achievements in this regard have become key evaluation indicators not only for investors, but also for customers and partners when choosing what companies they will deal with. Companies need to create both social value, which includes the environment, and economic value. It is certainly a difficult challenge, but if they can create markets from social issues, it will surely strengthen their corporate competitiveness in the medium to long term.

Hisano If we only pursued the reduction of environmental burden with an extension of past efforts, it would limit both the benefits for OTSUKA CORPORATION and the contributions we could make to society. To create value through new combinations that will offer an attractive solution and that will lead to environmental contributions at the same time. This is our urgent challenge.

Ushijima My impression is that OTSUKA CORPORATION’s business model of implementing solutions yourselves before offering them to customers has a great deal of potential. I will be watching closely to see how you build up successful experience in the achievement of sustainability yourselves and how you will pass those achievements on to society as a business.

Hisano I am very encouraged by those words. OTSUKA CORPORATION has assembled a wide range of solutions. In the environmental area in particular, we see tremendous potential in the market for SMEs, which, compared with the large corporations, face challenges with DX and the like. By proposing solutions that we have verified ourselves while squarely addressing the management issues faced by our customers, we may be able to offer them value that they have not seen before.

Ushijima Initiatives that add “ESG performance” as a new keyword alongside “cost reduction” and “productivity improvement” may also be interesting. In your trial-and-error approach that uses OTSUKA CORPORATION as a test lab, as it were, if you can visualize



effectiveness not only in the “E” (environment) area, but in the “S” (social) area as well, such as increasing employee engagement indicators, it will send an even stronger message. As a result, the added value of your business will expand, and possibilities will emerge for opening up new markets and solving social issues.

Hisano It is exactly as you said about creating social value and economic value simultaneously.

Ushijima Allocating funds to areas that will increase the sum of those two values is the direction that investors will soon be moving toward. In the global competitive environment to date, rather than companies that approach sustainability in a passive way, approaches and communications that are proactive and with “Intention” lead more easily to competitive advantage. Whether a company is actively seeking to embark into unknown territory with the “Intention” of stepping ahead of other companies as a leader, or whether it is simply going with the flow—this question will make a tremendous difference.

Hisano I agree. “Intention” is a word that our top executives also use often. I see it as a driver of growth and an important keyword. Going forward, as well as holding onto that “Intention,” by showing it in concrete forms, we will work to promote dialogue with our shareholders to gain their understanding. Thank you so much for your invaluable insights today.



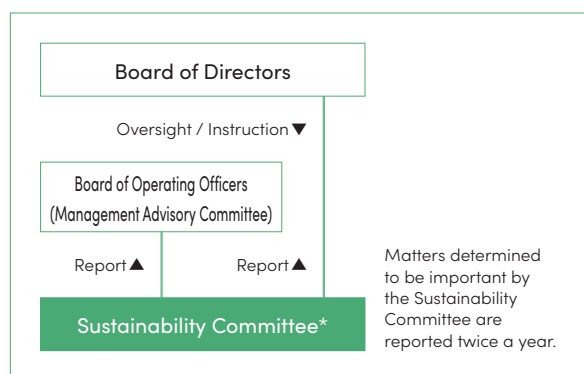
Reporting in Line with the TCFD Recommendations

OTSUKA CORPORATION announced its support for the TCFD (Task Force on Climate-related Financial Disclosures) recommendations in February 2022. We will work to improve our corporate value by enhancing our climate-related measures and gradually increasing the quality and quantity of our information disclosure.

Governance

OTSUKA CORPORATION considers climate change to be an important management issue, and has presented response to climate change as one of its materiality issues.

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



Strategies

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

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

Based on these analyses, each business will consider, plan, and implement specific measures to prepare for all possibilities in an uncertain world in the future. Please see the table below for risks, opportunities and strategies relating to expected events.

Scenario analyses of climate change-related risks and opportunities and related strategies

Expected events	Assessment (financial impact)*		Risks
	4°C	Less than 1.5°C	
Impacts of the transition to a decarbonized economy Changes in policies, laws, and regulations	Introduction of carbon taxes and emissions trading	— Large	● Costs of business activities may increase.
	Promotion of policies toward renewable energy and energy conservation	Small Medium	● Costs of business activities may increase due to the cost of procuring renewable power, the cost of capital investment for energy conservation, and soaring electricity prices.
	Stricter plastic regulations and recycling regulations	Small Medium	● The prices of plastic materials, such as cushioning materials and packing materials, may rise. ● The cost of recycling recyclable items may increase.
	Promotion of policies toward forest protection	Small Large	● Procurement costs of paper products, etc. may increase due to the introduction of logging taxes. ● Demand for paper may decline.
	Changes in demand for key products	Small Medium	● Demand for products that are not environmentally friendly may decline.
	Changes in behavior of customers and partners	Small Large	● Failure to meet demands from customers and partners that we use renewable energy and achieve carbon neutrality may result in suspension of business.
Physical impact of climate change	Intensification of abnormal weather	Large Medium	● Supply chains may be disrupted, making it difficult for us to perform business activities. ● Costs of BCP measures may increase. ● Risk of data corruption in the data center business may increase.
	Rise in the average temperature	Medium Small	● Increased use of cooling systems in distribution centers, data centers, etc. may increase energy costs. ● Changes in vegetation may increase the procurement costs of wood-related products, such as copy paper.

Risk Management

- (1) Led by the Sustainability Committee, we identify and assess climate-related risks that may have impact that is material financially or strategically.
- (2) We have established a Risk Management Committee as the body that promotes and supervises business risk management. The Risk Management Committee investigates respective measures for key risks and provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department in its scope.
- (3) After discussions at the Sustainability Committee and the Board of Directors, we have identified nine items of materiality, including response to climate change. In identifying the items, we have examined a wide range of issues in business activities and determined the materiality items for us to prioritize from the points of view of both the degree of interest for stakeholders and importance for the Group.
- (4) We are working to strengthen our risk management by always maintaining consistency among these activities (1) to (3).

*To see a corporate governance system chart, which includes the Board of Directors, the Sustainability Committee, and the Risk Management Committee, please see P.69.

Metrics and Targets

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

Scope 1+2	Reduce by 42%
Scope 3	Reduce by 25%

In addition, we will gradually change the source of the electricity we use in our business activities to renewable energy.

**As of May 2023, a review by SBTi is scheduled.

Opportunities	Strategies (measures)	
	Approaches to customers	Initiatives inside the Company
<ul style="list-style-type: none"> ● Willingness to reduce costs in business activities may increase. ● The need for environmentally friendly products and services may increase. ● The need for efficient transportation and delivery of goods may increase. 	<ul style="list-style-type: none"> ● Strengthen cost reduction proposals utilizing IT ● Strengthen the proposals of environmentally friendly products and solutions (LED, electricity sales, server virtualization, BEMS = Building and Energy Management System, etc.) 	<ul style="list-style-type: none"> ● Consider introducing solar panels in the Company ● Promote a shift to eco-friendly products, such as electric vehicles and LED lighting ● Reduce CO₂ emissions by updating logistics equipment, etc. and curb increases in costs of business activities ● Promote the use of renewable energy
—	—	<ul style="list-style-type: none"> ● Introduce alternative materials that are environmentally friendly ● Work to effectively utilize resources at our own recycling centers, and strengthen cooperative relationships with various partners (waste paper collectors, manufacturers, etc.)
<ul style="list-style-type: none"> ● More business activities may go paperless, and IT may increasingly replace paper materials. 	<ul style="list-style-type: none"> ● Strengthen document solution proposals to go paperless 	<ul style="list-style-type: none"> ● Continue our support for WWF Japan and our efforts in overseas tree planting activities/ forest regeneration projects
<ul style="list-style-type: none"> ● Demand for eco-friendly products may increase. ● Spread of a circular economy may increase business opportunities for collection services and non-physical services. ● Appreciation and recognition of the efforts of environmentally conscious companies may lead to acquisition of new business opportunities and new customers. 	<ul style="list-style-type: none"> ● Carry more products which are recognized as environmentally friendly, such as those labeled with an Eco Mark and those listed in the Green Purchasing Network (GPN)'s database. ● Propose new environment-related solutions by combining products and services and create added value ● Strengthen proposals of cloud and data center-related solutions 	<ul style="list-style-type: none"> ● Actively participate in climate change initiatives, such as TCFD and SBT
<ul style="list-style-type: none"> ● Teleworking and other workstyles may spread and take root, and related demand may increase. ● Demand for BCP measures may increase. ● Efforts for building new supply chains may gain momentum on the premise of abnormal weather. 	<ul style="list-style-type: none"> ● Strengthen proposals for teleworking and BCP-related solutions 	<ul style="list-style-type: none"> ● Strengthen BCP measures and data center facilities ● Work with partners to optimize the supply chain
—	—	<ul style="list-style-type: none"> ● Study optimal placement of distribution centers, data centers, etc. ● Diversify procurement sources

*Assessment (financial impact) Small: The financial impact is small. Medium: The financial impact is medium. Large: The financial impact is large. We have performed quantitative and qualitative analysis to assess relative impact.

Sustainability Management

We promote sustainability management in order to achieve both the realization of a sustainable society and continuous improvement of corporate value through the realization of our Mission Statement. We will promote our growth strategy from a medium- to long-term perspective by aligning our “support of the entire office of our customers,” which is placed at the center of our value creation model, and our sustainability management and strengthening our response to materiality.

In addition, in order to contribute to the resolution of ESG issues, such as climate change, and the achievement of the SDGs, we will strive to strengthen our management foundation, increase the resilience of our business model, and fulfill our social responsibilities as a company.

Sustainability promotion system

The Sustainability Committee was established in November 2021 to promote management from the perspective of sustainability. The committee is engaged in activities to improve the effectiveness of our sustainability management by making proposals to the Board of Directors regarding our responses to environmental and social risks, establishment of governance systems, and deliberations on materiality.

Materiality

After discussions at the Sustainability Committee and the Board of Directors, we have identified nine materiality issues in three groups to prioritize.

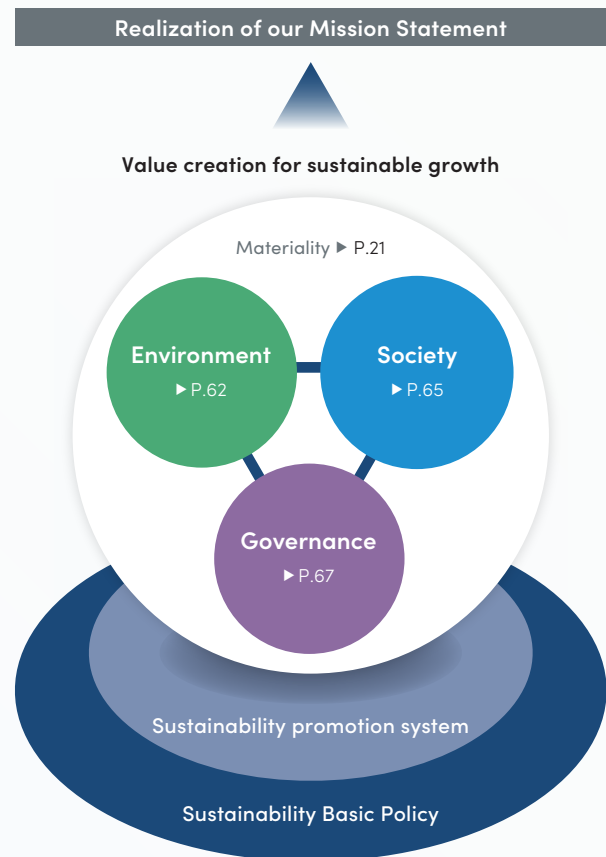
Value creation through business activities	(1)	Maintenance and expansion of the customer base
	(2)	Coexistence and co-prosperity with partners
	(3)	Coexistence with the community
Support for employee growth and self-fulfillment	(4)	Improvement of employee engagement
	(5)	Promotion of diversity, equity, and inclusion
	(6)	Human resource development
Implementation of responsible corporate activities	(7)	Response to climate change
	(8)	Information security to provide safe and secure solutions
	(9)	Strengthening governance

Status of our responses to materiality ▶ P.21

Major activities of the Sustainability Committee (from its launch in November 2021 to March 2023)

November 2021	February 2022	April	May	August	February 2023	March
<ul style="list-style-type: none"> ● Launch of the Committee 	<ul style="list-style-type: none"> ● Expressed support for TCFD ● Submitted the SBTi commitment letter ● Proposed the introduction of renewable energy 	<ul style="list-style-type: none"> ● Sustainability Basic Policy ● Human Rights Policies / Procurement Policies ● Materiality 	<ul style="list-style-type: none"> ● Renewable energy plan (head office building) 	<ul style="list-style-type: none"> ● Renewable energy introduction report (head office building) ● Procurement Guidelines ● Submitted a response to the CDP 	<ul style="list-style-type: none"> ● Proposed disclosure in line with the TCFD recommendations 	<ul style="list-style-type: none"> ● Disclosure in line with the TCFD recommendations ● Considering joining the United Nations Global Compact

The committee has continued vigorous activities, including making six proposals/reports to the Board of Directors and Board of Operating Officers (as well as held subcommittee activities three times and nine meetings to exchange opinions with external partners). In 2022, we expressed our support of initiatives of TCFD and SBT and introduced renewable energy in our head office building. In addition, we formulated a



Sustainability Basic Policy and have been striving to develop a system to promote our sustainability management. In August, we formulated the Sustainable Procurement Guidelines and have been conducting a fact-finding survey of our partners with the aim of strengthening the functions of our supply chain and understanding risks (responses have been received from 34% of our partners based on the purchase amounts in 2022.).

Environment

Environmental Protection Activities

OTSUKA CORPORATION has set the goal of its Mission Statement “to demonstrate harmonious coexistence and growth with nature and society.” We are actively promoting environmental protection activities so that we can pass on a sustainable environment to the next generation as an effort to fulfill our social responsibility for the environment. To this end, 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.

OTSUKA Eco-Action Plan (2021 to 2025)

OTSUKA Eco-Action Plan is a medium-term action plan for OTSUKA CORPORATION’s environmental conservation activities. We have established environmental purposes and goals in line with the

framework of ISO14001, which is an international environmental standard, and been making various efforts to achieve them.

Environmental Purposes	Environmental Goals, etc.	
Activities that impact the outside of the Company	Contribute to the society's effort to reduce CO ₂ by providing environmental solutions and environmental products	<ul style="list-style-type: none"> ● Reduce 150,000 tons of CO₂ by expanding sales of LED lighting ● Contribute to society by expanding sales of environmental products on tanomail
	Protect the richness of the sea and land through support activities	<ul style="list-style-type: none"> ● Support WWF Japan ● Support for Oyama Senmaida (terraced rice fields, located in Chiba) ▶ CASE ● Expand sales of Lake Papyrus 20 ● Continue our overseas afforestation activities “Tanokun No Mori (TANO-kun Forest)” ● Support reforestation projects in the Amazon
Activities inside the Company	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 the usage of electricity, gasoline and copy paper, and the amount of industrial waste by 1% or more compared to the previous year ● Promote the introduction of renewable energy ● Maintain a recycling rate of 97% or more by operating a disposal scheme ● Maintain the same volume of general waste emissions compared to the previous year ● Eco-car introduction rate of 25% or more

CASE

Oyama Senmaida terraced rice fields conservation activities

Since 2005, we have extended our cooperation to activities to conserve terraced rice fields by such means as having our employees and their families help them plant rice. In 2023, we received a special letter of appreciation which recognized us as an organization that has made particularly outstanding efforts among 39 companies and universities selected by the Ministry of Agriculture, Forestry and Fisheries that have been contributing to the development of terraced rice fields.



Environmental Management System

We have built an Environmental Management System to increase the effectiveness of the OTSUKA Eco-Action Plan. As of May 2023, 25 major sites (offices) nationwide have acquired ISO14001 certification. Even at the offices that have not acquired the certification, we are conducting activities in accordance with the same management system. We break down goals for each site and promote unique activities according to the characteristics of the site.

In addition, in order to comply with environment-related laws and regulations, we conduct regular internal audits by internal auditors who have internal qualifications. Furthermore, as part of our education program, we require all employees, including temporary and part-time employees, to take an e-learning course on environment and pass a confirmation test every year.

Environment

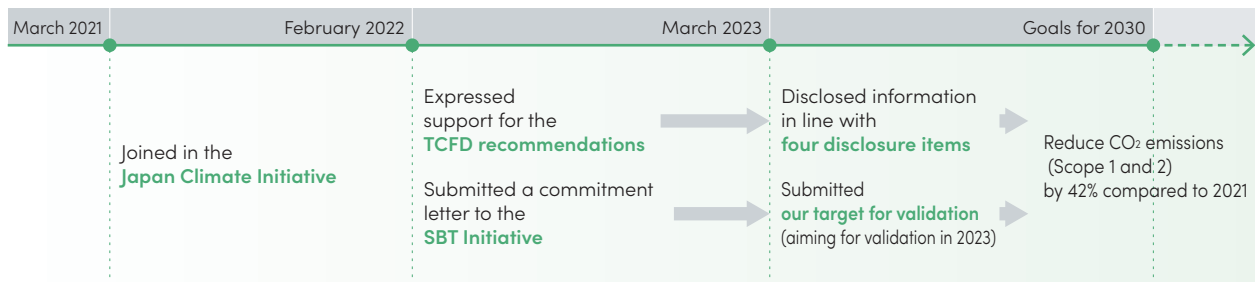
Climate Change

Responding to global climate change is a major issue that should be tackled globally. Since the adoption of the Paris Agreement, measures against climate change has been accelerating worldwide. In October 2020, the Japanese government also declared “Carbon Neutrality by 2050” with the aim of realizing a carbon-free society. OTSUKA CORPORATION has continued to support various initiatives and make efforts to mitigate climate change through its business activities as well.

Support for initiatives

We have expressed our support for various initiatives in order to fulfill our social responsibilities toward the realization of a carbon-free society. We will continue to work to strengthen our measures against climate change and actively disclose information.

Dialogue on Sustainability ▶ P.55
 Reporting in Line with the TCFD (Task Force on Climate-related Financial Disclosures) Recommendations ▶ P.59



Initiatives to mitigate climate change through our business activities

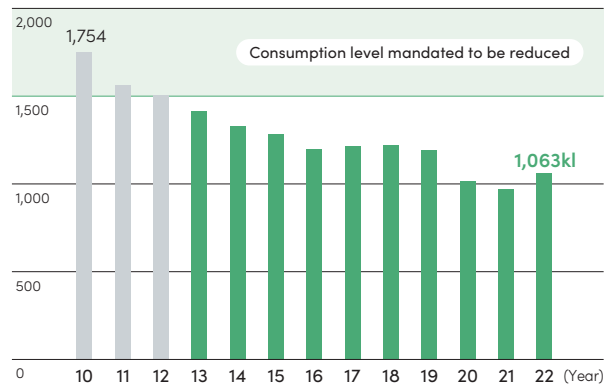
Our approach of proposing solutions based on our own experience using the products/services remains the same with measures for climate change. Under the Tokyo Metropolitan Environmental Security Ordinance (the Tokyo Cap-and-Trade Program), which started in 2010, our head office building, which is located in Chiyoda-ku, Tokyo, was inside the scope of the facilities that are obligated to reduce CO₂ emissions (facilities whose energy consumption is 1,500kl or more in crude oil equivalent) at the time. However, we have taken measures to reduce our CO₂ emissions and are now outside the scope of the program. We support our customers’ environmental efforts by proposing environmental solutions that we adopted at the time and proved highly effective.

Furthermore, in 2022, we started offering disinfection LED lighting, which not only has the conventional effect of reducing CO₂ emissions but also inactivates viruses and suppresses the growth of

bacteria. We will continue to strengthen our activities so that we will be able to provide a wide range of customers with solutions that contribute to solving climate change and social issues.

Energy consumption of the head office building

(kl in crude oil equivalent)



Primary environmental solutions

1 LED lighting*	Reduce power consumption with lighting that is long life and low in power consumption	5 Data centers	Reduce power consumption by utilizing data centers
2 BEMS (visualization and showing of electric power)	Optimize the operation of power consumption in offices and buildings by integrated monitoring	6 Replacement with latest power-saving laptops	Reduce power consumption by introducing laptops and tablets that consume less power
3 Smart electric outlets (Plugwise)	Realize visualization of electric power used in lighting equipment.	7 Paperless (digitization)	Contribute to saving resources and making effective use of space by digitizing paper materials
4 Virtualization of servers	Reduce power consumption with virtualization technologies	8 Environmentally friendly merchandise	Promote green procurement, that is friendly to the global environment

*In collaboration with Sumitomo Mitsui Trust Panasonic Finance Co., Ltd., we make donations through the SDGs "Arigato (Thank you)" Project. This project is an effort to donate part of the LED lighting lease contract amount to the National Federation of UNESCO Associations in JAPAN subject to approvals from customers.

Large-scale distribution center that is environmentally friendly

In October 2021, we opened the Yokohama Distribution Center in Yokohama City, Kanagawa Prefecture, which is our third distribution base in the Tokyo metropolitan area. We have expanded the robot storage system "AutoStore" to the largest scale in Japan* and improved logistics productivity by utilizing AI and big data, such as automatic analysis and

analytics functions.

In addition, it has acquired CASBEE-A rank (Yokohama City) as an environmentally friendly distribution center with the introduction of solar power generation equipment, LED lighting, and a shuttle rack with less power consumption.

*As of July 2021, according to a survey by our logistics contractor

Introduction of renewable energy

Under the Tokyo Metropolitan Environmental Security Ordinance (Carbon Reduction Reporting Program for SMEs), we have received the highest rank "SS-rank (extremely superior business operator)" for two consecutive years since fiscal 2021.

In July 2022, we switched the energy source for our head office building to renewable energy. We plan to gradually increase the number of offices that use renewable energy.

Circular Society

In order to make effective use of limited resources, OTSUKA CORPORATION is implementing initiatives to minimize the amount of resources its uses and waste. We will contribute to the realization of a circular society through effective use of resources at our own recycling centers and support of activities of NPOs and welfare facilities in collaboration with partners.



Specific measures	Overview
OTSUKA CORPORATION Recycling Centers	We opened recycling centers in Tokyo and Osaka for the purpose of effective use of resources and commitment to compliance. We are working to effectively utilize resources by sorting out the disused items generated in the Company and the equipment traded in at the time of new sale by type before selling them as valuable resources or outsourcing the processing to industrial waste companies that can recycle resources.
Internal use of returned merchandise	We are working to reduce waste by utilizing the products returned by tanomail customers in the Company.
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.

"Donation/support program of reused PCs" and "Gift from TANO-kun" are also part of our social contribution activities ▶P.66

Society

Initiatives to Respect Human Rights

As discussions across the globe become increasingly active on human rights in business settings, vigorous efforts are being made toward respecting human rights. We have also formulated the OTSUKA CORPORATION Group Human Rights Policy to understand that all people involved in corporate activities have human rights and to fulfill our responsibility to respect human rights. We will fulfill our social responsibilities together with our stakeholders with the aim of realizing decent work while promoting initiatives that are respectful of human rights.



Human Rights Policies

OTSUKA CORPORATION formulated the OTSUKA CORPORATION Group Human Rights Policy in April 2022. The policy complies with international standards and 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).

As a commitment to human rights issues related to corporate activities, we clearly state that we will eliminate all kinds of discrimination, respect human rights and diversity of individuals, and provide a healthy and safe work environment free of all forms of harassment.

In addition to applying the policies to all employees of our group companies, we also encourage our business partners to support and observe the policy.

OTSUKA CORPORATION Group Human Rights Policy

- | | |
|--|-------------------------------|
| 1. Our basic thinking toward human rights | 5. Human rights due diligence |
| 2. Scope of application of the policy | 6. Remedies |
| 3. System to promote respect for human rights | 7. Education and training |
| 4. Commitment to human rights issues related to corporate activities | 8. Information disclosure |

Structure and system

In order to disseminate the Human Rights Policy and the Principles of Corporate Behavior, we continuously provide training on compliance, harassment, etc. using web learning systems (to employees except for those on leave. The ratio of employees who completed the training in 2022: compliance training: 100.0%; harassment training: 98.9%). In addition, for the purpose of preventing, early detecting, and correcting issues, we have established various whistleblowing and consulting desks and formulated the Whistleblower Protection Regulations in accordance with the Whistleblower Protection Act so that all stakeholders will be able to make reports without being disadvantaged.

[Principles of Corporate Behavior](#) ▶ Web

Training system	<ul style="list-style-type: none"> ● Training is available on the web anytime anywhere. ● Training history/progress can be managed on Education My Page for each employee 	
	Internal Reporting System	For the purpose of prevention, early detection, and correction of violations of laws and regulations and the Principles of Corporate Behavior, we have established an internal reporting system.
Consultation help desk	Internal Consultation Help Desk	In partnership with an external specialized company, we accept consultations from all employees.
	External Compliance Help Desk	We have an external compliance helpdesk on our website.

Social Contribution Activities

We engage in a wide range of social contribution activities, from spontaneous volunteering activities by employees to company-led activities that take advantage of the business characteristics of OTSUKA CORPORATION. For the realization of our Mission Statement that we aim for, we strive to increase corporate value through contributing to the solution of social issues so that each employee can recognize his/her connection with society, which is the place where we operate.

Area	Item	Overview	2022 Results	
Support for activities of NPOs	Donation/support program of reused PCs	We refurbish PCs that are no longer used in the Company and donate them to NPOs through the "authorized NPO e-Parts" to support their computerization.	Number of PCs donated	107
	Heartful Fund	It is a matching gift system for employees and the Company. We support organizations engaged in disaster relief and other activities that serve public interest.	Sponsorship money	¥3.00 million
	Gift from TANO-kun	We donate tanomail products to NPOs, welfare facilities, etc. We receive the cooperation of SBS RICOH LOGISTICS SYSTEM Co., Ltd. with free-of-charge delivery within the 23 wards of Tokyo to handle the logistics of donations.	Support amount	¥6.10 million
	Happy Points Donation Program	We have a program that allows customers to choose to donate Happy Points, which are awarded according to the purchase amount on tanomail, to philanthropic organizations.	Number of projects supported	25
Nurturing the next generation	Accept company visits	We support education for career development by accepting company visits from junior high school students.	Number of products donated	5,306
	Support for new graduates from children's homes	We donate rice cookers, vacuum cleaners, and other products that will be useful for the youth embarking on solo life to NPO PlanetCanal to support children in their efforts to become independent.	Number of recipient organizations	35
Measures against natural disasters and support for reconstruction	Support for reconstruction of disaster-stricken areas	We provide support for reconstruction of disaster-stricken areas in Japan.	Support amount	Approx. ¥2.60 million to four organizations
			Number of schools we welcomed	Three schools (four times)
Other social contribution activities	Support for food banks (food support)	We donate food and beverages handled by tanomail to food banks, which are used to support people in need and at welfare facilities.	Number of students	15
	Volunteering activities to collect resources	We collect used stamps, spoiled postcards, bellmarks, empty contact lens cases, and old books, and donate them to NPOs, etc.	Number of products donated	92
	Support for the Chiyoda Ward Council of Social Welfare	We support the activities of the Chiyoda Ward Council of Social Welfare by providing them with an Internet environment for free.	Held product trade shows to support reconstruction	
	Blood donation	As a company supporting blood donations run by the Japanese Red Cross Society, we regularly host an in-house blood drive at the head office and regional sales departments.	Number of products donated	35,214
	Cleanup activities in the local communities	We clean roads, parks, etc. near our head office and other offices in various locations.	Empty contact lens cases:	54kg
	Support for community revitalization	We support the revitalization of local economies and promote development together with local communities.	Used stamps:	14kg, etc.
			Number of drives held	6
		Number of participants	171	
		Amount of blood donated	67,200ml	
		Number of cleaning activities performed	18	
		Number of participants	132	
		Donated ¥100 million to Fukuoka City		
			▶P.38	

Develop Human Resources

The founding spirit of OTSUKA CORPORATION is to create a company where employees are happy, employees are proud to work, and employees are appreciated by their families. It has been passed on to our Mission Statement, in which one of its goals is to become a corporate group that encourages employee growth and self-realization. In order to realize it, we have identified improvement of employee engagement, promotion of diversity, equity, and inclusion, and human resource development as our materiality issues and are actively working on them.

For details on initiatives for each item, please see the following pages in this Integrated Report:

[Improvement of Employee Engagement ▶ P.39](#) [Promotion of Diversity, Equity, and Inclusion ▶ P.41](#) [Human Resource Development ▶ P.43](#)

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.

This does not list all the knowledge and experience of each of Directors and Audit & Supervisory Board Members, but describes their representative skills.





Directors (as of March 29, 2023)

Primary skills: ● Supplementary skills: ○

	Years in office	Nomination & Remuneration Committee	Required experience and skills							(Main) Areas of responsibility
			Corporate Management	Finance & Accounting	Legal / Risk Management	Sustainability ESG	Personnel & Labor Relations / Human Resource Development	Technical Research and Development	DX ICT	
 <p>Yuji Otsuka President & Chief Executive Officer</p>	31	●	○	○	○	○	○	○	○	General Manager of Marketing Headquarters
 <p>Kazuyuki Katakura Managing Director & Senior Executive Operating Officer</p>	26	—	○	○	○	○	○	○	○	General Manager of Sales Headquarters, Deputy General Manager of Marketing Headquarters
 <p>Hironobu Tsurumi Managing Director & Executive Operating Officer</p>	13	—	○	○	○	○	○	○	○	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, General Manager of CAD Promotion Department
 <p>Hironobu Saito Managing Director & Executive Operating Officer</p>	16	●	○	○	○	○	○	○	○	General Manager of Business Administration Headquarters, in charge of Project Promotion Office, Office of Auditors, Marketing Automation Center, and Customer Personalized Pages Promotion Center
 <p>Minoru Sakurai Managing Director & Operating Officer</p>	12	—	○	○	○	○	○	○	○	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department
 <p>Jiro Makino Outside Independent Director</p>	8	● Chairperson	○	○	○	○	○	○	○	Corporate Legal Affairs
 <p>Tetsuo Saito Outside Independent Director</p>	7	●	○	○	○	○	○	○	○	Corporate Management (Governance)
 <p>Makiko Hamabe Outside Independent Director</p>	2	●	○	○	○	○	○	○	○	Sustainability, ESG, IR

Audit & Supervisory Board Members (as of March 29, 2023)

Primary skills: ◎ Supplementary skills: ○

	Years in office	Nomination & Remuneration Committee	Required experience and skills							(Main) Areas of responsibility
			Corporate Management	Finance & Accounting	Legal / Risk Management	Sustainability ESG	Personnel & Labor Relations / Human Resource Development	Technical Research and Development	DX ICT	
 <p>Tatsumi Murata Standing Audit & Supervisory Board Member</p>	2	—		○	◎		○			Business in general
 <p>Kazuhiko Nakai Audit & Supervisory Board Member</p> <p>Outside Independent</p>	11	—	◎	◎						Finance, Accounting
 <p>Etsuo Hada Audit & Supervisory Board Member</p> <p>Outside Independent</p>	7	—	◎	◎	◎					Finance, Accounting, Corporate Legal Affairs
 <p>Katsumasa Minagawa Audit & Supervisory Board Member</p> <p>Outside Independent</p>	3	—	◎		◎					Corporate Legal Affairs

Required experience and skills

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

Governance

Corporate Governance System

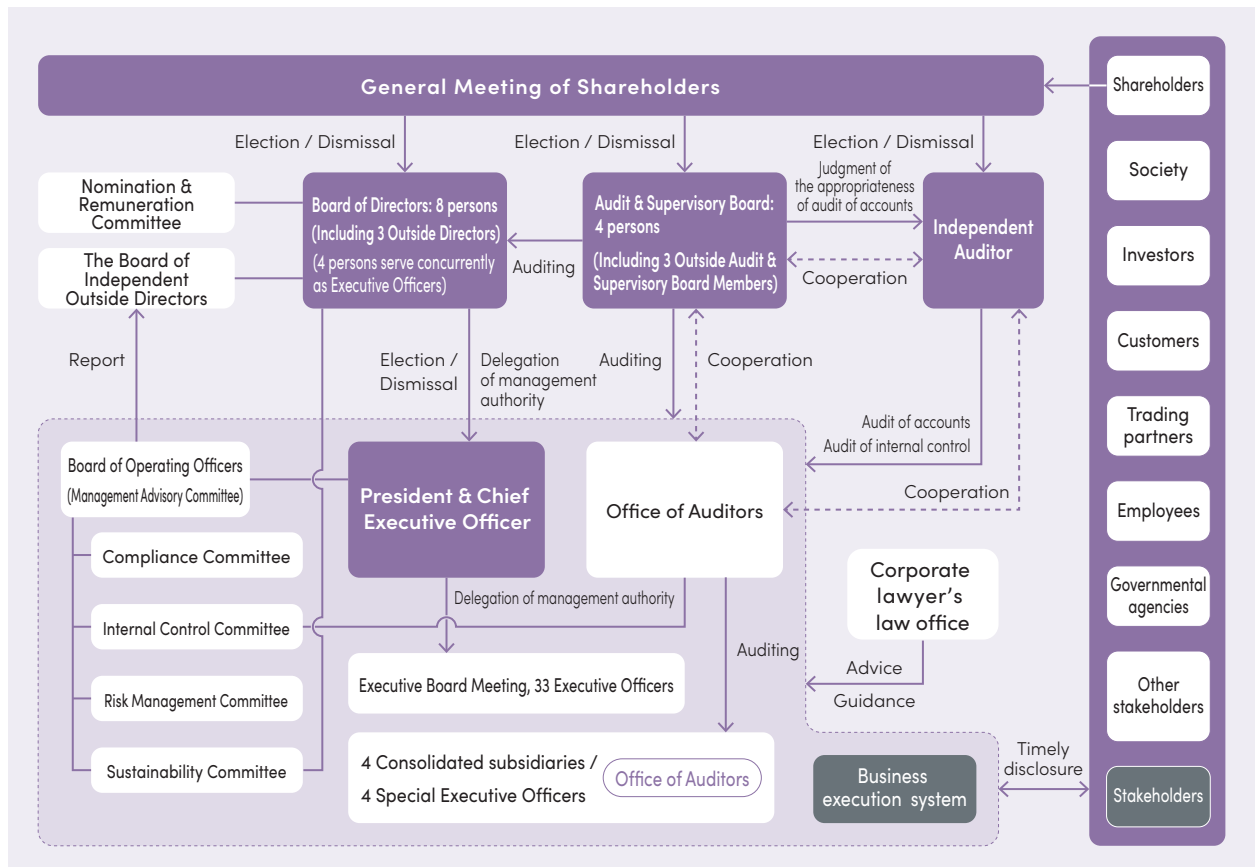
Based on corporate ethics and the spirit of compliance spelled out in its Mission Statement, the OTSUKA CORPORATION Group aims to adapt agilely to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and the Board of Directors, Audit & Supervisory Board Members and the Audit & Supervisory Board, and the 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.

Furthermore, Group Management Meetings are held four times a year to clarify operational conditions and progress in achieving profit targets at each Group company and to strengthen corporate governance. The Group Management Meeting is chaired by Hironobu Saito, Managing Director & Executive Operating Officer; General Manager of Business Administration Headquarters, and consists of 25 members, including four internal Directors, excluding the President & Chief Executive Officer, one Standing Audit & Supervisory Board Member, four top managers of Group companies (Special Executive Officers), six Executive Officers who are deeply involved in operations at Group companies, as well as the President's Office and the Finance and Accounting Department.

Corporate governance system chart (As of March 29, 2023)



Evaluation of Effectiveness of the Board of Directors

1 Outline of the effectiveness evaluation of the Board of Directors for the fiscal year ended December 31, 2021

Target	The 61st term (the fiscal year ended December 31, 2021)
Period	From mid–April to mid–June, 2022
Method	Three Independent 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	<ul style="list-style-type: none"> Ratio and aging of constituent members
Management	<ul style="list-style-type: none"> Earlier formation of an annual schedule Holding meetings online to avoid the risks of infection amid the COVID-19 pandemic
Agenda	<ol style="list-style-type: none"> Medium- to long-term management strategies and management plans Policies for formulating medium- to long-term management plans Succession plan for Representative Directors Executive compensation
System	<ul style="list-style-type: none"> Generally appropriate, but will consider holding a meeting that is comprised only of Independent Outside Directors.
Other	<p>Matters to be addressed in order to aim for sustainable growth</p> <ol style="list-style-type: none"> Verification of business portfolio Investment in human capital Whether to introduce a share-based compensation program

3 Progress in addressing the issues in 2022

Composition	<ul style="list-style-type: none"> Improved effectiveness by changing the composition of the Board of Directors (Total: 8 Directors, including 3 Independent Outside Directors, who account for 37.5% of the Board; composition ratio of 1/3 or more). Assessed the qualifications of Executive Officers who have potential as candidates for Director, and improved readiness to promptly select candidates.
Management	<ul style="list-style-type: none"> Formulated an annual schedule early and provided a provisional schedule as well in an effort to make more improvements. Developed an infrastructure that enables hybrid meetings (both onsite and online).
Agenda	<ol style="list-style-type: none"> Independent Outside Directors participated as observers in the annual plan meeting for the next fiscal year and was shared management strategies and plans. Disclosed to Independent Outside Directors information on medium- to long-term management plans while they were still being formulated. Obtained advice from them to continue brushing up the plans. Proceed with the plan to develop candidates to succeed Representative Directors by continuing to train them in OTSUKA Leader's College. Improve executive compensation by having the Nomination & Remuneration Committee study trends at other companies and build systems and programs that are suitable for the Company.
System	<ul style="list-style-type: none"> Held an Independent Outside Directors' meeting that is comprised only of Independent Outside Directors.
Other	<ol style="list-style-type: none"> Gained deeper understanding of the business through participation in the annual plan meeting for the next fiscal year and business briefings given by Executive Officers in charge. Implemented measures to create job satisfaction to enhance work-life balance and improve the workplace environment. Continued comparing and studying trends at other companies and other compensation programs at the Nomination & Remuneration Committee and the Management Advisory Committee.

Compliance System

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

1 Role of the Compliance Committee

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

Constituent members

The Compliance Committee belongs to the Internal Control Committee.

Compliance system chart  Web

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 consultation desks, such as the Compliance Hotline to ensure proper processing of reporting.

Governance

3 Compliance education

1. Compliance Manual

The Compliance Manual presents our basic attitude toward compliance. 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) PrivacyMark

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.

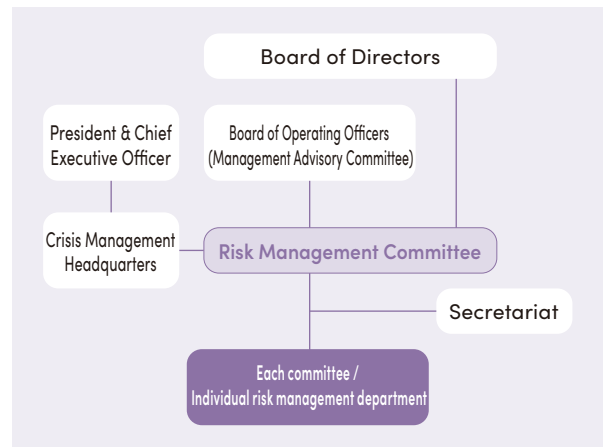
Risk Management System

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and supervise business risk management. The committee identifies and assesses all risks related to the Company. The Risk Management Committee 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 risks in each division and department in its scope.

The most common risks* that could potentially impact the OTSUKA CORPORATION Group’s operating results and financial condition include customer-related risks, supplier-related risks, information leakage risks, and risks related to the spread of infectious diseases.

*Most common risks for the OTSUKA CORPORATION Group ▶ Annual Securities Report (P.13)

Risk Management System



Information security to provide safe and secure solutions Materiality (8)

OTSUKA CORPORATION Group possesses an abundance of individual and corporate information pertaining to operations and handles information leakage risks carefully. The Group’s operations could be significantly impacted in the unlikely event that personal or corporate information is leaked outside the Group because the Group not only assumes liabilities for damage but also loses trust by society.

Acquired certifications	<ul style="list-style-type: none"> ● PrivacyMark (Japan Institute for Promotion of Digital Economy and Community) ● Information Security Management System (ISMS) Conformity Assessment Scheme ● ISO27017 (cloud security)
Measures and initiatives	<ul style="list-style-type: none"> ● Release of a Personal Information Protection Policy and establishment of various regulations ● Proprietary educational system Compliance Program (CP) License System ● Technical measures used at entrances, internally, and at exits ● External diagnoses by third parties ● Regular drills against targeted e-mail attacks

Roundtable Discussion among Outside Directors



Independent Outside Director

Tetsuo Saito

1977: Joined Tokyo Stock Exchange (currently Japan Exchange Group, Inc.).
1997: Representative Director of Work Two Co., Ltd. (current position).
March 2016: Appointed as Outside Director of OTSUKA CORPORATION (current position).



Independent Outside Director

Makiko Hamabe

1988: Joined Tokyo Office of Central Bank of Chile (Financial Department of Embassy of Chile).
2000: Joined Yahoo Japan Corporation (currently Z Holdings Corporation).
March 2021: Appointed as Outside Director of OTSUKA CORPORATION (current position).



Independent Outside Director

Jiro Makino

1983: Registered as an attorney at law
1990: Established MAKINO legal professional office (currently MAKINO legal professional corporation), serves as Director (current position).
2004: Outside Audit & Supervisory Board Member of OTSUKA CORPORATION.
March 2015: Appointed as Outside Director of OTSUKA CORPORATION (current position).

*Only major events have been included in these career summaries.

Helping SMEs promote DX and improve sustainability through “supporting the entire office of our customers”

Effectiveness of the Board of Directors has improved by the Board of Independent Outside Directors

Makino I was appointed in March 2015, so I began my ninth year as an Outside Director in April. As an attorney, I have made a point of monitoring and giving advice about corporate legal matters overall from a critical standpoint. You are in your eighth year, aren't you, Mr. Saito?

Saito Yes. I understand my role is to leverage my experience of involvement in stock listing examinations at the Tokyo Stock Exchange and my knowledge of the Corporate Governance Code to provide accurate advice.

Makino Ms. Hamabe, you joined us in 2021 ...

Hamabe That's right. This is my third year.

Saito Your joining us as the first female Outside Director, and with your strong knowledge of sustainability, ESG, and investor relations, means you have brought new perspective to the Board of

Directors, from the viewpoint of investors and from the female perspective.

Makino It has been most encouraging to hear your careful explanations of themes such as climate change, diversity, and ESG, which are areas that we have not been able to respond to adequately. What is your own assessment of OTSUKA CORPORATION's Board of Directors, Ms. Hamabe?

Hamabe Well, I would not say that the debate in meetings is always heated, but there is a sense that we can speak freely. Also, because the Board of Independent Outside Directors holds ample discussions prior to the Board of Directors meetings, I feel that, as Outside Directors, we can make more pertinent comments and reminders.

Makino I feel the same. As the number of topics to be discussed in the Board of Directors has increased, I do

Roundtable Discussion among Outside Directors



think that this arrangement of a separate forum for us to discuss the issues has helped to improve the quality of the discussion.

Saito Certainly, our opinions on a matter will have already been reflected by the time it is actually raised at the Board of Directors meeting, so it is less likely that the debate will descend into disorder in the actual meeting room.

Makino On the other hand, even if we know in advance what matters will be on the agenda the

Board of Directors meeting and what changes have been made after we gave our opinions, in our role as Outside Directors, we all still express our own opinions in the Board meetings.

Saito In my case, I speak up with an awareness that if I don't emphasize a certain point, it won't be conveyed adequately, and that I need to repeat certain key points.

Hamabe Our conversations at the Board of Independent Outside Directors meetings do not involve speaking directly to the internal Directors, and the basis of our understanding as Outside Directors looking at matters from an external perspective differs from that of the internal Directors, who consider the same matters with the accepted wisdoms of inside the company. Precisely for that reason, I believe it is crucial that we deepen understanding by continuously repeating those points that are difficult to convey.

Makino I also stress the point that "It's alright in this state on this occasion, but it really is not adequate." I always endeavor to make pointed comments with the intention of encouraging the internal Directors to give it more consideration next time.

Deepening communication with internal Directors through individual interviews

Makino Mr. Saito, you have taken the central role in the evaluation of the Board's effectiveness, haven't you?

Saito I conduct analysis and evaluation based on the outcomes of individual interviews, looking at the result of the questionnaire that I ask all Board members to complete. We have a cycle in which, the year after I make my report to the Board of Directors, the executive team reports on the status of improvement of the areas of my findings. Every time I listen to these reports, I am pleased to hear that progress is being made with those improvements. The Board members speak quite frankly in those interviews, which really helps me to understand their thinking. Another approach to the evaluation of Board effectiveness is to have a third party conduct it with an emphasis on objectivity. However, I think that our

approach is valid because it allows an Outside Director to hear the true feelings of the internal Directors directly from them.

The internal Directors other than the President often say to me, 'The President listens carefully to outside opinions too, so if you have anything to point out, please do speak up.'

Makino The President does seem to be delighted by our harsher comments.

Hamabe I agree. When I pointed out at a Board of Directors meeting that the numerical targets for the promotion of women's participation were too low, he directed the division responsible to reconsider the targets right there and then.

Makino He also took my suggestion that the evaluation system for engineers needed to be reviewed, and he gave specific instructions, including a deadline to the Executive Officer to consider such a review urgently. Fierce competition for IT personnel has already started, so if those evaluations are lower than other companies, we will start losing our people. I deliberately spoke quite harshly, but he acted immediately. That kind of response has given me the sense that the Board of Directors has been greatly revitalized.



Reviewing remuneration standards and designing the system so that Directors will have common interests with shareholders

Saito A major development in the fiscal year under review (fiscal year ended December 31, 2022) was the creation in March of the Nomination & Remuneration Committee, based on the Board of Directors report on the evaluation of the Board's effectiveness.

Makino The remuneration of OTSUKA CORPORATION's Directors is determined by strict rules. However, because those rules have not been adequately explained externally, it is possible that people outside the company may have the mistaken impression that the President determines them by himself. I was also concerned that the level of Directors' remuneration may be low, despite the fact that the Company has grown. For this reason, I pointed out the need to ensure the transparency of the process for determining Directors' remuneration and to examine the reasonableness of remuneration levels. That eventually led to the establishment of the committee.

Saito We discussed topics such as the social reasonableness of remuneration levels compared with companies of a similar size and the possibility of raising motivation with incentive-based remuneration. Ultimately, the conclusion was reached to raise the level of remuneration.

Hamabe I also mentioned that medium- to long-term incentives should be incorporated into Directors' remuneration and made various proposals for calculation criteria to achieve common interests with shareholders and links to corporate value. These proposals are now being studied.

Makino A distinctive characteristic of OTSUKA CORPORATION is that, while making a decision can take time, once it has been made, they are very quick to act on it. So let's keep conveying our opinions with persistence until decisions are made.

Nurturing management personnel who will lead the organization is an important management issue over the long term

Hamabe The development of a succession plan for the President's position tends to be seen as a key theme in the role of nomination committees, but in OTSUKA CORPORATION's case, this is not really seen as a very serious issue.

Makino The decisions have all already been made, including who will take command in an emergency, and because the Company is an owner-operated company, it is not as if the top executive is changing every two years. I would like to look at this issue from a long-term perspective. At this point, rather than the question of who will be the next president, building firm foundations that will function no matter who that person is would be more important.

Hamabe On the other hand, if the top position is going to change in the next 10-15 years, the Company will need to anticipate that and cultivate the people who would be candidates for the position. Perhaps there is a need to properly identify who would be the most likely candidates and start training them.

Saito There is also a common awareness that the membership of Board of Directors also needs to be rejuvenated. OTSUKA Leader's College is taking plenty of time to cultivate next-generation leaders, and some of its participants have already started to be promoted to Executive Officer. Little by little, I think we will see some of them being appointed to the position of Director in the future.

Makino Regarding the nomination of Directors other than the President, in terms of the role of the nominating committee, the natural form is for the

President to first select candidates, and the committee will then confirm whether or not the selected candidates are appropriate from various perspectives, such as transparency and diversity.

Saito In addition to dealing in a wide range of products, OTSUKA CORPORATION has more than 9,000 employees on a consolidated basis, making it a complicated organization. Cultivating personnel who will be able to lead and control that organization as a whole is no easy task. I sense many challenges in cultivating management personnel, including considering what qualities and skills are required of leaders from a medium- to long-term perspective.

Hamabe In terms of human capital, I think we should cultivate people who have specializations and skills that would be viable even outside the Company. On the other hand, management executives need to be



Roundtable Discussion among Outside Directors



able to oversee the business as an all-rounder, so I think that their cultivation needs a different approach.

Makino How to cultivate the leader of an organization? That is a difficult challenge. At this point, we are only halfway there, but in any event, talk of personnel appointments that go beyond the conventional bounds of the organization emerges every time, so I hope that the Company will achieve dynamic appointments with the right people being placed in the right positions.

Hamabe There is certainly a need for the rejuvenation of the Board members, but as well as that, with only one woman among the eight Directors, the percentage of women Directors is just 12%. Only one of the approximately 30 Executive Officers is a woman, which is just 3%. This situation cannot be overlooked from the perspective of ensuring diversity. At the very least, while a ratio of 5 to 5 would be ideal in terms of gender, I believe that, to start with, we need to aim to raise the percentage of women Directors to 30% gradually.

Saito That comes down to training, doesn't it?

Hamabe Of course training is needed, but what is most important is building mechanisms that will support women's careers as a Company. This includes not crushing female employees' potential by confining them to certain jobs, giving them high targets to stretch themselves toward, and properly evaluating their achievements.

Supporting sustainability measures at SMEs is OTSUKA CORPORATION's social mission

Hamabe One particular topic discussed in the Board of Directors in the fiscal year under review (fiscal year ended December 31, 2022) that left an impression on me was the discussion of sustainability, which is one of my areas of specialization. Through the secretariat, I had repeated discussions and coordination with the Sustainability Committee, and we were able to reach a certain level of consensus.

Makino We formulated the Basic Policy, the Human Rights Policy, and the Procurement Policy and identified the Materiality issues.

Hamabe Regarding the Materiality issues, I am highly impressed with the way that they were identified with a view not only of the opportunities, but also the risks.

Saito You had quite a lot to say in that regard, didn't you, Ms. Hamabe?

Hamabe That may be so, but OTSUKA CORPORATION has always maintained a good balance between opportunity and risk—for example, in terms of opportunity, launching its LED business, and in terms of risk, reducing the environmental load of its business activities. It is precisely because that attitude is firmly embedded in its corporate culture that it has been able to address not only E (environment), but also S (social) issues with the same awareness.

Makino Another of the Materiality issues is "maintenance and expansion of our customer base."

A major distinction between OTSUKA CORPORATION and other companies is that SMEs make up 80% of its customer base. Essentially, it is these SMEs that underpin the Japanese economy.

Sustainability is taking on increasing importance in corporate activities, but it is the large companies that are at the center of sustainability initiatives. The reality is that it has not yet extended to SMEs. In OTSUKA CORPORATION's aim to expand its customer base, raising awareness about sustainability among its customers, the SMEs, is its social mission and its *raison d'être*, one that it will address with high intentions.

Saito Wouldn't it be wonderful if, as OTSUKA CORPORATION expands its business, it created a cycle in which its own awareness of corporate governance, compliance, risk management and the like spread to SMEs, and that this heightened awareness among SMEs led to further expansion of OTSUKA CORPORATION's business?

Hamabe It's the ESG value chain.

Saito To ensure that we don't see SMEs disappearing because they are unable to meet the many demands related to ESG, the Company needs to give SMEs strong support, with that kind of awareness, to enable the SMEs to meet as many of those demands as possible.

Making bold investments using internal reserves for the sustainable enhancement of corporate value

Hamabe One future issue I would like to raise in terms of OTSUKA CORPORATION's sustainable growth is that, inside the Company, there is a tendency to take

the short-term view in the pursuit of their day-to-day operations. By rights, the ideal approach would be to draw up a long-term vision for about 30 years into the

future and a roadmap for reaching that vision, and to use backcasting to formulate medium-term business plans that would be midway points toward that goal. Also, as a matter of course, the premise of such long-term thinking would be to constantly review those plans, taking assumptions about environmental changes and the progress of measures into account. The Company's Materiality issues, which I hold in such high regard, are no exception. Without long-term perspectives and thinking, companies will fail to keep up with rapid changes in the times.

Saito I feel the same. I would like to see management start to consider some bold growth investments for the sustainable enhancement of corporate value.

If you look at OTSUKA CORPORATION's balance sheet, you can see that it has amassed approximately ¥200.0 billion in cash and deposits as an outcome of the Otsuka Strategy. It is generating profits, and ROE is at a reasonable level, but harsh times are sure to come. Now, while the Company is doing well, is exactly when it should put some of those cash and deposits toward investments for the future, such as



strengthening human capital, M&As, and reinforcing the sales team.

Makino The Company has become more proactive with investment than it has been in the past, but it has still not moved into high gear, has it?

Saito I think it would be a good idea to set up some kind of specialist body, like an investment committee, to carefully study potential investments before they are made. Naturally, there will be risks, but unless the Company takes risks and makes investments that respond to rapid environmental changes, eventually, its earnings capacity will decline. I would like to see the Company create an environment that is a little more conducive to risk-taking and to start to move forward.

Further leap forward with the “support the entire office of our customers” concept

Makino I have experience working in the telecommunications area, so I have been able to consider and advise OTSUKA CORPORATION's management on IT matters. OTSUKA CORPORATION is accelerating its initiatives with the aim of promoting DX, but if the management side is to direct the entire business while responding to the rapid evolution of technology of recent years, it will need a tremendous amount of knowledge, experience, and ongoing research. In that respect, I think that, perhaps, my insights have been of some use ...

Saito Your area of specialization is corporate legal affairs, Mr. Makino, so with your excellent understanding of the details of OTSUKA CORPORATION, alongside your deep knowledge of IT, the comments you make in that regard are on point. I believe that you are a very dependable presence for the management team.

Makino In considering OTSUKA CORPORATION's IT-related initiatives, I hold particularly high hopes for its “support the entire office of our customers” concept, which it aims to achieve by having AI support the sales team. With the rapid evolution of AI, it would not be impossible to capture a huge share of the market in an instant, and it could be said that this is the future that is almost in our grasp.

Saito The Company certainly has enough products to achieve the “support the entire office of our customers” concept, and all that remains is to identify customer needs and provide the products that best meet those needs. It could be said that this identification of needs is the difficult part, but the

Company seems to be studying a variety of approaches, such as sorting out the operational processes, required data, and other elements of individual business types and inferring customers' needs from that information. I expect, therefore, that we will see even further growth going forward.

Hamabe I believe that with “support the entire office of our customers” concept, OTSUKA CORPORATION's business model of a strong customer base and customer contact points, which it has built up over the years, will be made even stronger. The cultivation of frontline sales representatives, who are the contact point with customers, will likely be key to the expansion of business.

Saito As you say, human resources is an urgent challenge. As well as sales staff, in recent years, there has been a sense of a shortage of IT personnel. However, conversely, if that hurdle can be properly cleared, the business will make significant progress toward success. I hope that OTSUKA CORPORATION will overcome these challenges and make a giant leap forward.



System Integration Business

We provide a wide variety of solutions, including consulting, planning, design, and development of software systems, implementation and setup of hardware, and construction of network environments.

We realize high value-added solutions by drawing on the wide range of products we carry, which are our strength, and selecting the optimal combination for customers from various products, services, and technologies without being tied to a specific manufacturer.

Long-term change in net sales [Characteristics and strengths]

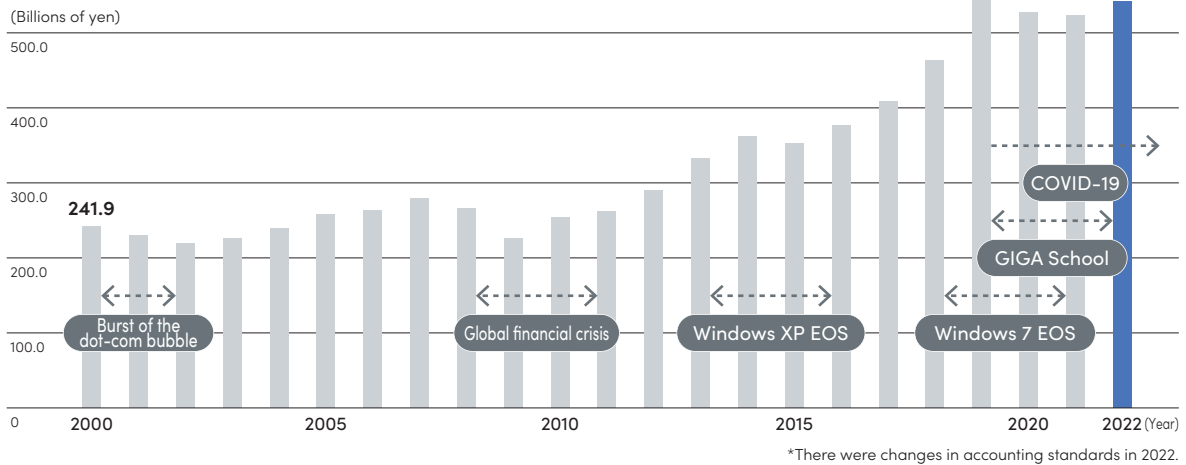
We suffered temporary declines due to the burst of the dot-com bubble, the global financial crises, etc. However, when there was renewal demand associated with the end of support (EOS) for Windows, we provided customers with PCs and related solutions, supported their effort to improve productivity and reduce cost, and significantly increased our sales.

In addition, when the government announced the GIGA School project, we drew on our procurement

capabilities to contribute to the realization of an educational ICT environment. We have thus developed our businesses to solve social issues.

The external environment has affected us, but we have continued to achieve steady growth for a long period of time by being sensitive to the need of customers and changes in the environment surrounding offices and society and expanding the scope of our solutions.

Long-term change in net sales



Changes in accounting standards

As the Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) since fiscal 2022, net sales of the System Integration Business for fiscal 2022 was

¥5.5 billion smaller than they would have been if there had been no changes in the accounting standards. If we had applied the accounting standard in fiscal 2021, the effect would have been ¥5.0 billion.

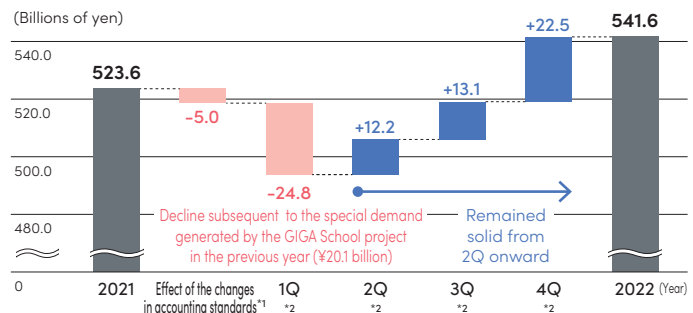
Factors for year-on-year changes in net sales

- In 1Q, net sales decreased by ¥24.8 billion, excluding the effect of the changes in accounting standards, due to the decline subsequent to the special demand generated by the GIGA School project in 2021 and shortages in supply of some products.
- From 2Q onward, when there were signs of lifting of constraints on supply, sales activities gradually returned to normal, resulting in solid net sales.

*1 Effect of the changes in accounting standards: The amount of effect if we had applied the "Accounting Standard for Revenue Recognition" in 2021

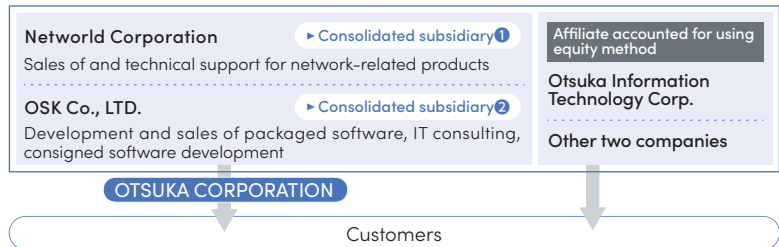
*2 1Q to 4Q: Substantial year-on-year change excluding the effect of the changes in accounting standards

Net sales for 2022 ¥541.6 billion (up 3.4% or ¥18.0 billion year on year)



Status of consolidated subsidiaries, etc.

Our System Integration Business consists of a total of six companies: OTSUKA CORPORATION, four subsidiaries (including two consolidated subsidiaries), and one affiliate accounted for using equity method.



Consolidated subsidiary ①

Networkworld Corporation

[Official website](#)

It is the largest consolidated subsidiary in the OTSUKA CORPORATION Group with sales exceeding ¥100.0 billion. It is striving to create added value as a solution distributor that provides the market with innovative products of the world's top vendors in various fields, such as hybrid cloud, virtualization, storage, and security.

In the first half of 2022, it suffered a decline in net sales due to the global disruption in the supply chain. However, in the second half, when the disruption eased, net sales marked a record high of ¥62.6 billion (up 12.4% year on year).

Net sales for 2022

2022	¥52.1 billion (-16.2%)	¥62.6 billion (+12.4%)	¥114.8 billion
	First half (Jan. to Jun.)	Second half (Jul. to Dec.)	Year total

Engineers account for more than a quarter of its employees. It utilizes a technical assistance facility that verifies the machines it plans to implement in advance (PIC), a center that verifies the virtualization environment (GARAGE), etc. to support the efficient and reliable introduction of latest technologies.

Its own facilities

<Left> PIC: Pre-Integration Center
<Right> GARAGE: Integrated System Verification Center

Consolidated subsidiary ②

OSK Co., LTD.

It is an important research and development base for the OTSUKA CORPORATION Group, which researches advanced technologies and provides optimal software products and related services (Graph 1).

By utilizing sales channels of OTSUKA CORPORATION and reflecting customer need observed there in a variety of products and services, it supports its customers in enhancing the productivity of their corporate activities.

Primarily with the integrated DX package that seamlessly integrates the core business solutions (SMILE) and the information solutions (eValue), it supports the promotion of DX of its customers through strengthening cooperation with various partners using APIs (Graph 2).

Graph 1: Research and development expenses (consolidated)

(Billions of yen)

Year	Expenses (Billions of yen)
18	~1.0
19	~0.6
20	~0.8
21	~1.0
22	¥1.2 billion (+16.4%)

Graph 2: Net sales of SMILE (non-consolidated)

(Billions of yen)

Year	Net sales (Billions of yen)
18	~12.0
19	~14.0
20	~12.5
21	~12.0
22	¥13.0 billion (+15.3%)

Integrated DX package

SMILE Core business solutions

Sales	Accounting	Personnel and Payroll	CRM Quick Creator	CTI
Cost Manager	Truck Star	POWER MITSUMORI	Seisan Kakushin	Industry TP

+

eValue Information solutions

Workflow	Document Management
Scheduler	Communication

Service and Support Business

We provide comprehensive support for our customers' information systems and corporate activities, centering on two brands: "tanomail," a mail-order business for office supplies, etc., and "tayoreru," an all-inclusive support program.

"tanomail," which carries many products necessary for offices, quickly delivers to customers what they want now from six distribution centers and 14 delivery centers nationwide. "tayoreru," which has one of the largest technical contact centers in Japan and also offers on-site support provided by technical personnel, who make up the largest portion of the staff in the Group, has established and expanded a system that can solve any problems customers may have.

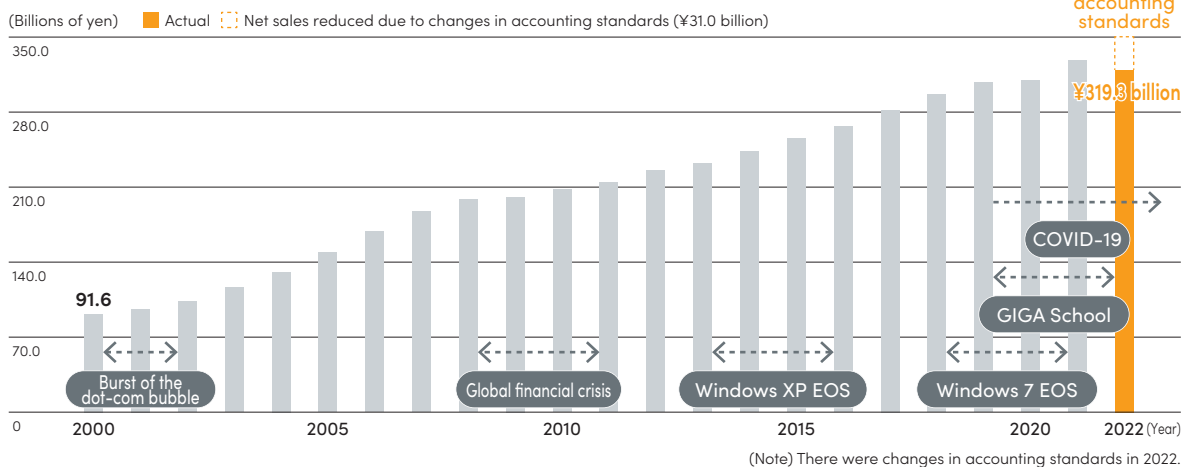
Long-term change in net sales [Characteristics and strengths]

The greatest strength of the Service and Support Business is that it secures stable income. Even at the time of the global financial crisis, when the performance of the System Integration Business was sluggish, the Service and Support Business grew steadily and supported the sales of the entire Company. At the time of the spread of COVID-19, its business, primarily sales of supplies and copy maintenance, was affected. However, we have been contributing to solving problems of our customers by strengthening solutions that respond to their new issues, such as support for transition to teleworking.

"tanomail," which is characterized by high purchase frequency and relatively low unit prices of the products it carries, also functions as a door opener that clears the way for business with new customers and plays an important role in expanding our customer base (P.53).

Excluding the effect of changes in accounting standards, the business has grown for 22 consecutive years, making it the foundation for stable growth of OTSUKA CORPORATION.

Long-term change in net sales



Changes in accounting standards

As the Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) since fiscal 2022, net sales of the Service and Support Business for fiscal 2022 was ¥31.0 billion smaller than they would have been if

there had been no changes in the accounting standards. If we had applied the accounting standard in fiscal 2021, the effect would have been ¥28.6 billion.

Factors for year-on-year changes in net sales

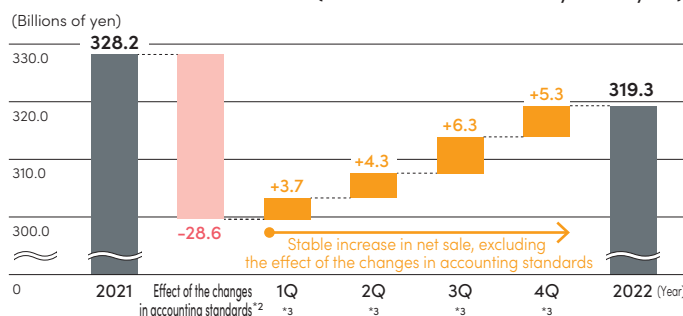
- Excluding the effect of the changes in accounting standards, net sales increased by ¥19.6 billion or 6.6%*1 year on year, showing steady growth in substance.
- We have continued to post a stable increase in net sales each quarter.

*1 Year-on-year change if we had applied the "Accounting Standard for Revenue Recognition" in 2021

*2 Effect of the changes in accounting standards: The amount of effect if we had applied the "Accounting Standard for Revenue Recognition" in 2021

*3 1Q to 4Q: Substantial year-on-year change excluding the effect of the changes in accounting standards

Net sales for 2022 ¥319.3 billion (down 2.7% or ¥8.9 billion year on year)



Featured businesses (Internet/cloud business and security management business)

While cloud services, which can reduce initial investment and be used anywhere, improve the convenience in business, security measures become important to protect valuable information asset.

OTSUKA CORPORATION started the Internet business in 1995, when the word cloud was yet to exist, and started the security management business in 1996. By doing both businesses, it has become possible for us to build a cloud environment that has a high level of security.

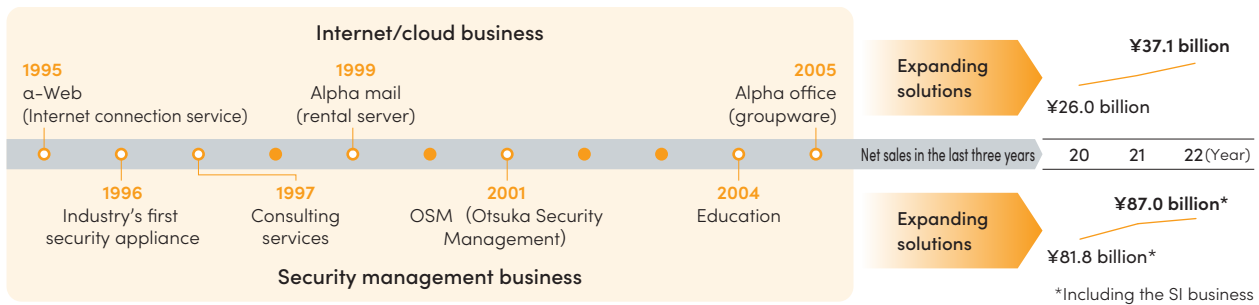
In the unlikely event of a failure, we will isolate the incident and quickly respond to it to contribute to the

continuation of safe and secure business activities of customers.

Started in 1995	Internet/cloud business	<ul style="list-style-type: none"> World-class business record No. 1¹ market share in Japan for many services
Started in 1996	Security management business	<ul style="list-style-type: none"> Solutions provided to approximately 90,000 companies Best partner for many products²

*1 Surveyed by various partners

*2 Major awards received from our partners ▶ P.31

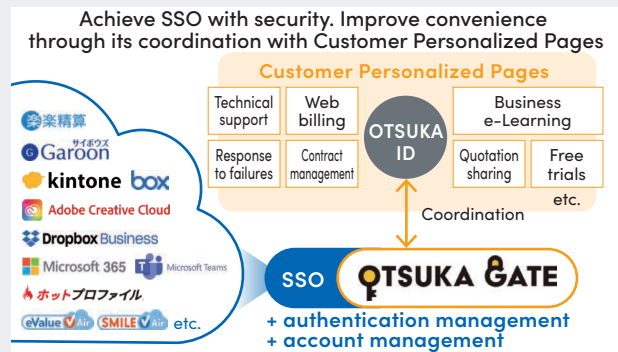


CASE OTSUKA GATE

In June 2022, we released OTSUKA GATE, a new service that provides SSO*1 for various cloud services and strengthened security, such as authentication management, at an affordable price. It works in coordination with the Customer Personalized Pages*2 to increase convenience for customers. We will also support customers in promoting DX by making proposals in line with their cloud usage status.

*1 SSO (single sign-on): A system that allows a user to access all applications and services he/she is authorized to access with a single user authentication

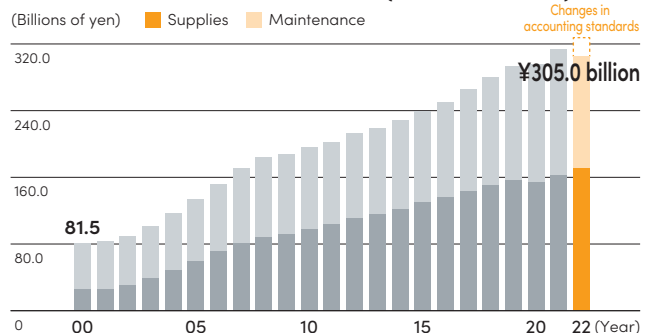
*2 Customer Personalized Pages ▶ P.52



Accumulated business

The core of the Service and Support Business is the accumulated business, which consists of two parts: supplies (tanomail) and maintenance (tayoreru). Having regular interaction with customers through supply orders, continuous maintenance agreements, etc. helps us build long and continuous relationships with them. By receiving additional orders from our ever-expanding customer base, we will continue to strive to accumulate sales further.

Net sales of the accumulated business (non-consolidated)



Principal Financial and Non-Financial Data

			2012	2013	2014	2015
Consolidated	Financial results	Net sales*1	515,771	564,595	605,766	609,045
		System Integration business*1	289,840	332,067	362,068	353,170
		Service and Support business*1	225,298	231,868	243,316	255,490
		Other business*2	632	658	381	385
		Operating profit	28,251	33,901	37,097	37,311
		Ordinary profit	29,079	33,505	38,144	38,240
		Profit attributable to owners of parent	16,277	20,271	23,455	23,705
	Financial position	Total assets	253,158	279,589	305,513	324,755
		Equity	128,471	144,150	163,277	173,229
		Interest-bearing debt	9,367	9,070	9,584	9,344
	Cash flows	Net cash provided by (used in) operating activities	25,879	18,780	34,130	27,621
		Net cash provided by (used in) investing activities	(4,894)	(3,468)	(5,410)	(7,235)
		Net cash provided by (used in) financing activities	(5,190)	(6,561)	(7,580)	(8,742)
		Cash and cash equivalents at end of period	68,113	76,863	97,943	109,587
	Per share data*3	Earnings per share (EPS) (yen)	85.85	106.92	123.71	125.03
		Dividend per share of common stock (yen)*4	33.33	39.16	45.00	50.00
		Dividend payout ratio (%)	38.83	36.63	36.38	39.99
	Productivity	Net sales per employee (thousands of yen)	63,651	69,634	73,551	72,617
		Operating profit per employee (thousands of yen)	3,486	4,181	4,504	4,448
	Main financial indicators	Return on equity (%)	13.28	14.87	15.26	14.09
		Operating profit to Net sales ratio (%)	5.48	6.00	6.12	6.13
Equity ratio (%)		50.75	51.56	53.44	53.34	
Non-consolidated	Environment	Scope 1 CO ₂ emissions (tCO ₂)	—	6,051	5,987	6,186
		Scope 2 CO ₂ emissions*5 (location-based) (tCO ₂)	—	—	—	—
		Scope 2 CO ₂ emissions*5 (market-based) (tCO ₂)	—	—	—	—
		Energy and electricity consumption (thousand kWh)*5	—	—	—	—
		Number of ISO14001-certified business sites (sites)	25	25	25	25
Consolidated	Employees	Number of regular employees (people)	8,103	8,108	8,236	8,387
Non-consolidated		Number of regular employees (total) (people)	6,638	6,634	6,758	6,837
Non-consolidated	Employees	Men (people)	5,354	5,351	5,421	5,462
		Women (people)	1,284	1,283	1,337	1,375
		Employee awareness survey answer rate (%)	82	84	83	78
		Training costs for regular employees (millions of yen)	462	491	462	490
		Education and training costs per employee (thousands of yen)	69	74	68	71
		Number of new graduates recruited (men and women) (people)	185	214	300	298
		Men (people)	135	154	209	221
		Women (people)	50	60	91	77
		Ratio of men (%)	73.0	72.0	69.7	74.2
		Ratio of women (%)	27.0	28.0	30.3	25.8
	Governance	No. of Directors (people)	12	12	12	13
		Men (people)	12	12	12	13
		Women (people)	0	0	0	0
		Average attendance rate of outside directors (%)	—	—	—	100
Non-consolidated	Number of executive officers (total) (people)	18	17	18	20	
	Men (people)	18	17	18	20	
	Women (people)	0	0	0	0	

*1 The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) since fiscal 2022.

*2 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.

(Millions of yen)

2016	2017	2018	2019	2020	2021	2022
643,417	691,166	759,871	886,536	836,323	851,894	861,022
376,391	408,718	463,293	578,698	526,613	523,609	541,671
266,625	282,064	296,577	307,837	309,710	328,284	319,350
400	383	—	—	—	—	—
39,684	44,386	48,058	62,192	56,309	55,827	54,768
40,780	45,460	49,285	63,706	57,550	57,567	56,639
26,675	31,560	33,601	43,497	39,309	39,927	40,022
343,821	380,317	406,732	461,812	471,292	486,254	523,016
189,851	212,897	229,726	259,328	277,348	298,743	319,388
9,008	8,873	8,256	8,807	8,895	8,851	8,441
23,932	36,153	38,646	48,762	32,496	57,873	29,196
(5,823)	(5,243)	(11,096)	(7,934)	(8,716)	(9,160)	(8,355)
(9,532)	(11,528)	(13,470)	(16,221)	(20,988)	(21,957)	(23,307)
118,183	137,545	151,585	176,198	178,988	205,746	203,274
140.69	166.46	177.22	229.42	207.33	210.59	211.09
60.00	70.00	85.00	110.00	115.00	120.00	125.00
42.65	42.05	47.96	47.95	55.47	56.98	59.22
75,359	79,829	87,021	99,476	91,712	92,889	93,508
4,647	5,126	5,503	6,978	6,174	6,087	5,947
14.69	15.67	15.18	17.79	14.65	13.86	12.95
6.17	6.42	6.32	7.02	6.73	6.55	6.36
55.22	55.98	56.48	56.15	58.85	61.44	61.07
6,185	6,136	6,179	6,753	6,672	5,636	5,839
—	—	—	10,507	9,971	8,479	8,490
—	—	—	9,687	9,557	8,442	8,808
—	—	—	21,531	21,214	19,582	19,518
25	25	25	25	25	25	25
8,538	8,658	8,732	8,912	9,119	9,171	9,208
6,985	7,080	7,145	7,272	7,429	7,480	7,524
5,545	5,570	5,596	5,627	5,692	5,683	5,668
1,440	1,510	1,549	1,645	1,737	1,797	1,856
75	78	74	74	73	77	75
445	461	470	489	530	590	811
63	65	65	67	71	78	107
356	336	301	366	359	352	298
273	232	212	244	243	250	199
83	104	89	122	116	102	99
76.7	69.0	70.4	66.7	67.7	71.0	66.8
23.3	31.0	29.6	33.3	32.3	29.0	33.2
14	13	14	12	12	10	10
14	13	14	12	12	9	9
0	0	0	0	0	1	1
97	94	100	100	100	100	98
20	21	20	23	24	27	33
20	21	20	23	24	27	32
0	0	0	0	0	0	1

*3 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 2012.

*4 The dividend for fiscal 2016 includes the 55th anniversary commemorative dividend of ¥5.00. The dividend for fiscal 2021 includes the 60th anniversary commemorative dividend of ¥5.00.

*5 Data collection methods were revised in fiscal 2022. The data were calculated by applying the revised methods retroactively to fiscal 2019.

Financial Statements

■ Consolidated Balance Sheets

	(Millions of yen)	
	2021	2022
Assets		
Current assets		
Cash and deposits	204,701	202,288
Notes and accounts receivable – trade	135,786	—
Notes and accounts receivable – trade, and contract assets	—	152,405
Merchandise	33,052	42,636
Work in process	1,235	1,435
Raw materials and supplies	740	759
Other	25,594	35,670
Allowance for doubtful accounts	(75)	(83)
Total current assets	401,034	435,113
Non-current assets		
Property, plant and equipment		
Buildings and structures	52,827	52,879
Accumulated depreciation and impairment	(37,405)	(38,010)
Buildings and structures, net	15,422	14,868
Land	15,092	14,797
Other	16,473	16,482
Accumulated depreciation and impairment	(9,277)	(10,313)
Other, net	7,195	6,169
Total property, plant and equipment	37,710	35,835
Intangible assets		
Software	15,771	15,711
Other	59	59
Total intangible assets	15,830	15,770
Investments and other assets		
Investment securities	22,366	22,678
Guarantee deposits	2,429	2,335
Deferred tax assets	5,336	6,859
Deferred tax assets for land revaluation	—	2,833
Other	1,661	1,730
Allowance for doubtful accounts	(115)	(140)
Total investments and other assets	31,678	36,296
Total non-current assets	85,219	87,902
Total assets	486,254	523,016

	(Millions of yen)	
	2021	2022
Liabilities		
Current liabilities		
Notes and accounts payable – trade	91,938	99,517
Electronically recorded obligations – operating	17,901	19,443
Short-term borrowings	4,800	4,400
Current portion of long-term borrowings	—	1,700
Income taxes payable	8,769	9,077
Advances received	15,746	—
Contract liabilities	—	16,139
Provision for bonuses	3,806	3,885
Other	27,319	36,520
Total current liabilities	170,282	190,683
Non-current liabilities		
Long-term borrowings	1,700	—
Lease obligations	1,485	1,413
Provision for retirement benefits for directors (and other officers)	698	721
Retirement benefit liability	9,210	6,360
Other	1,104	1,105
Total non-current liabilities	14,198	9,600
Total liabilities	184,480	200,283
Net assets		
Shareholders' equity		
Share capital	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	272,834	288,660
Treasury shares	(139)	(140)
Total shareholders' equity	299,323	315,149
Accumulated other comprehensive income		
Valuation difference on available – for – sale securities	8,734	6,835
Deferred gains or losses on hedges	8	(26)
Revaluation reserve for land	(10,987)	(6,141)
Foreign currency translation adjustment	151	200
Remeasurements of defined benefit plans	1,513	3,371
Total accumulated other comprehensive income	(580)	4,239
Non-controlling interests	3,030	3,343
Total net assets	301,774	322,732
Total liabilities and net assets	486,254	523,016

■ Consolidated Statements of Income

(Millions of yen)

	2021	2022
Net sales	851,894	861,022
Cost of sales	675,003	676,853
Gross profit	176,890	184,169
Selling, general and administrative expenses		
Salaries, allowances and bonuses	46,035	48,452
Remuneration for directors (and other officers)	548	551
Welfare expenses	8,042	9,260
Rent expenses	7,475	8,098
Transportation and storage costs	26,140	27,760
Provision for bonuses	2,551	2,601
Retirement benefit expenses	1,715	1,863
Provision for retirement benefits for directors (and other officers)	57	53
Provision of allowance for doubtful accounts	(5)	89
Depreciation	6,151	6,296
Other	22,349	24,374
Total selling, general and administrative expenses	121,062	129,400
Operating profit	55,827	54,768
Non-operating income		
Interest income	14	17
Dividend income	225	253
Rental income from buildings	263	227
Income from recycling	157	230
Share of profit of entities accounted for using equity method	794	661
Foreign exchange gains	64	335
Other	325	295
Total non-operating income	1,845	2,022
Non-operating expenses		
Interest expenses	44	43
Donations	50	100
Other	11	7
Total non-operating expenses	105	151
Ordinary profit	57,567	56,639
Extraordinary income		
Gain on sale of non-current assets	886	460
Gain on sale of investment securities	19	687
Total extraordinary income	905	1,147
Extraordinary losses		
Loss on retirement of non-current assets	56	65
Impairment losses	220	1,120
Loss on valuation of investment securities	—	91
Other	6	—
Total extraordinary losses	283	1,277
Profit before income taxes	58,190	56,509
Income taxes – current	17,142	16,840
Income taxes – deferred	576	(842)
Total income taxes	17,718	15,998
Profit	40,471	40,511
Profit attributable to non-controlling interests	543	488
Profit attributable to owners of parent	39,927	40,022

Financial Statements

■ Consolidated Statements of Comprehensive Income

(Millions of yen)

	2021	2022
Profit	40,471	40,511
Other comprehensive income		
Valuation difference on available-for-sale securities	3,159	(1,924)
Deferred gains or losses on hedges	17	(43)
Revaluation reserve for land	126	3,449
Remeasurements of defined benefit plans, net of tax	(228)	1,830
Share of other comprehensive income of entities accounted for using equity method	155	88
Total other comprehensive income	3,230	3,400
Comprehensive income	43,702	43,911
(Breakdown)		
Comprehensive income attributable to owners of parent	43,199	43,445
Comprehensive income attributable to non-controlling interests	502	466

■ Consolidated Statements of Cash Flows

(Millions of yen)

	2021	2022
Cash flows from operating activities		
Profit before income taxes	58,190	56,509
Depreciation	7,982	8,290
Impairment losses	220	1,120
Increase (decrease) in allowance for doubtful accounts	(119)	32
Interest and dividend income	(239)	(270)
Interest expenses	44	43
Share of loss (profit) of entities accounted for using equity method	(794)	(661)
Loss on retirement of non-current assets	56	65
Loss (gain) on sale of non-current assets	(879)	(460)
Loss (gain) on sale of investment securities	(19)	(687)
Loss (gain) on valuation of investment securities	—	91
Decrease (increase) in trade receivables	9,342	(23,806)
Decrease (increase) in inventories	9,169	(9,716)
Increase (decrease) in trade payables	(5,419)	14,782
Other, net	(2,272)	(36)
Subtotal	75,260	45,297
Interest and dividends received	454	527
Interest paid	(44)	(43)
Income taxes paid	(17,796)	(16,584)
Net cash provided by (used in) operating activities	57,873	29,196
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,203)	(1,249)
Proceeds from sale of property, plant and equipment	1,546	969
Purchase of software	(5,679)	(5,828)
Purchase of investment securities	(198)	(2,707)
Proceeds from sale of investment securities	38	743
Long-term loan advances	(18)	(150)
Other, net	355	(133)
Net cash provided by (used in) investing activities	(9,160)	(8,355)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	(400)
Dividends paid	(21,797)	(22,753)
Other, net	(159)	(153)
Net cash provided by (used in) financing activities	(21,957)	(23,307)
Effect of exchange rate change on cash and cash equivalents	2	(4)
Net increase (decrease) in cash and cash equivalents	26,758	(2,471)
Cash and cash equivalents at beginning of period	178,988	205,746
Cash and cash equivalents at end of period	205,746	203,274

■ Consolidated Statements of Changes in Equity

(Millions of yen)

2021

	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)
Net changes in items other than shareholders' equity					
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)
Net changes in items other than shareholders' equity	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

(Millions of yen)

2022

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

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

Corporate Information/Stock Information/Stock Price Trends

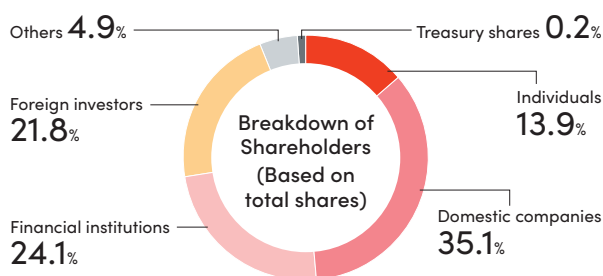
(As of December 31, 2022)

Corporate Information

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	Consolidated: 9,208 Non-consolidated: 7,524
Fiscal Year	From January 1 to December 31 (Annual General Meeting of Shareholders: March)
Business	<ul style="list-style-type: none"> ● System Integration Business ▶ P.77 ● Service and Support Business ▶ P.79
Head Office Location	2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573 TEL 03-3264-7111
Local Area Sales Departments	Chuo Sales Dept. 1 Chuo Sales Dept. 2 Kanagawa Sales Dept. Josai Sales Dept. Tama Sales Dept. Johoku Sales Dept. Northern Kanto Sales Dept. Keiyo Sales Dept. Osaka Northern Sales Dept. Osaka Southern Sales Dept.
Regional Offices	Sapporo Branch Sendai Branch Utsunomiya Branch Takasaki Branch Tsukuba Branch Chubu Branch Kyoto Branch Kobe Branch Hiroshima Branch Kyushu Branch
Consolidated Subsidiaries	OSK Co., LTD. Network Corporation Alpha Techno Co., LTD. Alpha Net Co., LTD.

Stock Information

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	7,475
Listed Stock Exchange	Tokyo Stock Exchange (securities code: 4768)

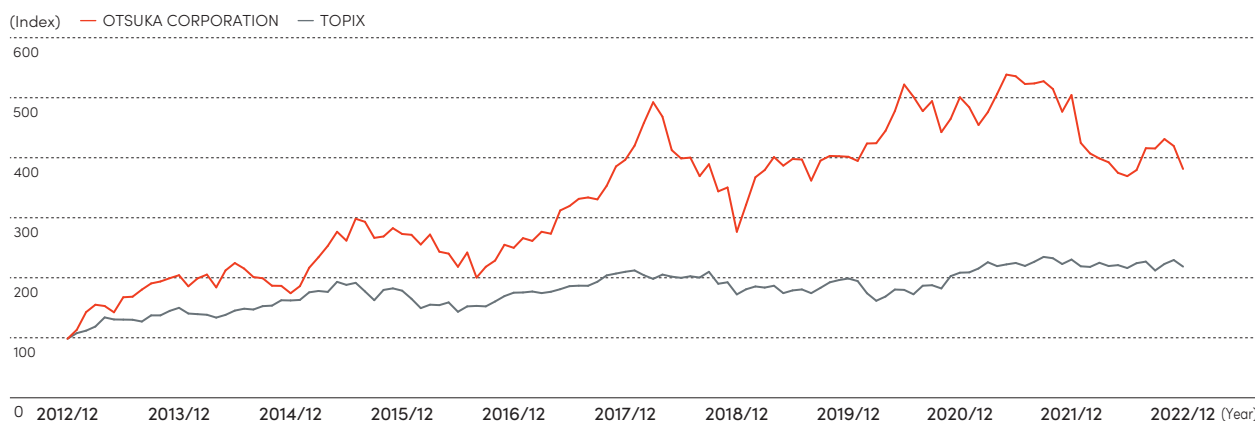


Major Shareholders (top 10)

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

(Note) Equity Ownership is calculated after deducting treasury stock (401,081 shares).

Stock Price Trends



(Note) Changes in the stock price index with the stock price at the end of December 2012 set to equal 100.

Corporate Branding



As mentioned in the “tanomail opens up the doors”^{*1} section, it is tanomail that plays an important role as a door to the business with OTSUKA CORPORATION. You may have seen our punning commercial that started in 2002 at least once.

The name recognition of OTSUKA CORPORATION increased dramatically through the tanomail commercial. In sales



activities, it serves as a topic we can use to start conversation with customers who we meet for the first time. In recruitment activities, students have joined the Company who got to know about us through the commercial. By leveraging its high name recognition and carrying a wide range of products necessary in offices, it has become a launchpad for us to start doing business with many customers regardless of their industry and form of business.

^{*1}tanomail opens up the doors ▶ P.53

However, tanomail is not the only thing OTSUKA CORPORATION has to offer. As described in the Story of Company A^{*1}, sales on tanomail account for only 20% of our sales, with the remaining 80% being made up by sales of various hardware, software, and maintenance services. Since 2021, we have been advertising with the catchphrase “To bring DX that is for you” to convey that we are a partner who stays close to our customers to support the entire office of them^{*2}.

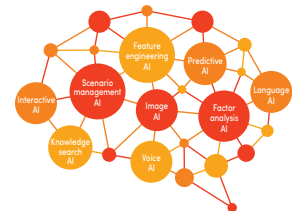
^{*1}The Story of Company A ▶ P.25 ^{*2}OTSUKA CORPORATION Supports the Entire Office of Our Customers ▶ P.23



OTSUKA CORPORATION itself is a company that continues to grow by increasing productivity through DX. We have also been working to develop AI solutions^{*}; we have acquired a patent for an AI business model based on the knowledge gained from using it ourselves, and our integrated DX package comes equipped with AI functions as standard features. OTSUKA CORPORATION is the only company that is able to support the DX

promotion for the entire office of customers with a wealth of solutions. We will continue to convey our unique efforts to ensure that the value we offer will be recognized appropriately.

^{*}OTSUKA CORPORATION, Utilizing AI ▶ P.49



In addition, we are engaged in various activities, such as sponsoring mini TV programs and disseminating information through web media. We will continue our corporate branding activities so that not only our stakeholders, but also those who

are not yet very interested in us will empathize with our efforts to embody our Mission Statement that we aim for, and that we will be able to fulfill larger social responsibilities.



This is a mini program provided solely by OTSUKA CORPORATION. It symbolizes the concept of OTSUKA CORPORATION, which proposes new solutions while making the most of existing things.



It is a program of BS TV TOKYO Corporation, of which we are the title sponsor. 80% of our customers are SMEs. We support SMEs that continue to take on various challenges and tell the stories of their strenuous efforts.



It is a web media run by OTSUKA CORPORATION and NIKKEI BP Intelligence Group. We cover a wide range of social issues that are one step ahead of us and provide hints for new businesses.

OTSUKA CORPORATION

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