



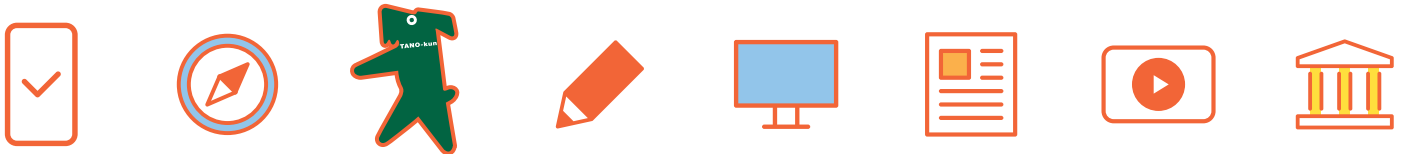
Otsuka Corporation



OTSUKA CORPORATION

Integrated Report 2024

Advancing IT solutions
with our customers in mind



Energize Japan by Supporting the Entire Office of Our Customers

Introduction

Sources of Value
Creation

Value Creation
Model

Value Creation Story

Sustainability and
Corporate
Governance

Overview by
Segment

Data Section

99.7%

99.7%* of all companies in Japan are small and medium-sized enterprises (SMEs). More than 30 million* people work in those SMEs from day to day. SMEs co-exist with local communities, preserve traditional culture, and even, on occasion, solve issues that the large companies cannot handle. With their outstanding expertise and diversity, SMEs are essential to Japan's economic development.

Without the energy of SMEs, there can be no energizing of Japan.
So that SMEs may shine brighter than ever.
To bring smiles to the faces of the people who work there.
We continue to help *energize* SMEs with the power of IT.

*2021 White Paper on Small and Medium Enterprises in Japan / White Paper on Small Enterprises in Japan (Small and Medium Enterprise Agency)

What is Support for the Entire Office?

Anything that you can see in an office. We can provide almost all of them.
To solve all manner of our customers' problems in their offices with the power of IT.
That is what OTSUKA CORPORATION's "supporting the entire office of our customers" is all about.



From pencils

- Delivery of what customers need when they need it (same-day or next-day delivery at the earliest)
- An extensive range of products, from office supplies to PCs and peripherals, daily necessities, electrical appliances, and nursing-care products
- Earth-friendly and environmentally friendly merchandise
- From both Japanese and overseas large corporations, to the latest AI created by start-ups
- Practical know-how gained from the experience of in-house use
- Re-packaging as solutions that are accessible even to SME customers

To AI

Both building

- From the initial configuration of a single computer to the construction of large-scale networks of several thousand PCs
- Multi-vendor approach that is not bound to specific manufacturers
- Multi-field approach that covers many different domains, including core systems, networks, and security
- One of the largest technical call centers in Japan (→ P.08)
- Proposals tailored to the customer, including on-premise and cloud solutions
- IT operations on customers' behalf (act as customer's information systems division)

and operating

Both physically

- Community-based operations
Insights and communication that can only be gained on site
Field sales:
Approx. 3,000 sales personnel
On-site support:
Approx. 3,000 engineers
280 support offices nationwide
- AI that uses massive volumes of data from business negotiations and support services to recommend the optimal solution for the customer
- Diversification of customer contact points, including online consultations (Web) and call center (Center), for improved convenience

and digitally



Why We Strive to Support the Entire Office of Customers

Why do we strive to support the entire office of customers?
We organized our reasons from three perspectives: why *we want to*, why *we can*, and why *we should*.

The **three** reasons we strive to support the entire office of our customers

3



Because we want to

Since our foundation in 1961, we have built a unique customer base centered on SMEs, and we have continued to grow together with our customers. Just as we have always done, we want to be a community-based partner that remains close to and is relied on by our customers. We want to energize SMEs in Japan. That is our wish.



Because we can

We have continued to expand our product lineup to meet the various needs of our customers. We have also built an ecosystem with our many partners, and we continue to refine our unique business model. To solve all manner of our customers' problems in their offices with the power of IT. This is a strength that only we possess.



Because we should

Many SMEs are facing various management challenges, such as ongoing serious labor shortages. We will enhance SMEs' productivity by using IT to improve their efficiency, and in doing so, help them to establish an environment in which they can focus on their main business. Supporting the entire office of our customers encourages the growth of SMEs and will contribute to the realization of a sustainable society.

Working
Alongside Our
Customers by
Supporting their
Entire Office

Amid successive major institutional reforms, such as restrictions on overtime and the new invoice system, new terms have emerged that symbolize the different eras, such as “work-style reform” and “DX (digital transformation).”

However, many SMEs do not have their own information systems division. We will stay close to such SMEs so that they will not be left behind.

Toward Becoming a 100-Year Company

The digital shift in Japan has only just begun.

To establish IT environments that will allow SMEs to focus on their main business and to support the people who work there.

To become a dependable presence for SMEs that face various challenges. These are our *raison d'être*.

Just as the business opportunities for our customers are infinite, so too are possibilities for OTSUKA CORPORATION.

To become a 100-year company, and go even further beyond, and to be the OTSUKA CORPORATION Group that is loved by all. We hope you enjoy reading about our initiatives in the story of our further growth.

OTSUKA CORPORATION in Numbers

Establishment

July 17, 1961

63 years

Merchandise offered

As of December 31, 2023
→P.30

Approx.
3 million items

Average annual salary

(non-consolidated)

¥9.37 million
(+9.4% compared to fiscal 2022)

Number of regular employees

As of December 31, 2023

Consolidated

Non-consolidated

9,421 7,713

Net sales per employee (non-consolidated)

¥112.74 million
(+10.5% compared to fiscal 2022)

Cloud business

Started in 1995

29 years
World-class

Security business

Started in 1996

28 years

Market capitalization

As of December 31, 2023

¥1,102.1 billion **+¥314.3 billion**
(compared to December 31, 2022)

Net sales

¥977.3 billion
(+13.5% compared to fiscal 2022)

Operating profit

¥62.9 billion
(+15.0% compared to fiscal 2022)

Profit attributable to owners of parent

¥47.4 billion
(+18.6% compared to fiscal 2022)

Cash flows from operating activities

¥71.6 billion
(+¥42.4 billion compared to fiscal 2022)

ROE

14.3%
(+1.3 points compared to fiscal 2022)

PBR

As of December 31, 2023

3.2 times
(+0.8 points compared to December 31, 2022)

Dividend per share of common stock

¥135
Increasing for 14 consecutive terms

Forging relationships with customers

Number of customer companies with transactions (non-consolidated)

295 thousand companies
(+1.1% compared to fiscal 2022)

Net sales per company (non-consolidated)

¥2.93 million
(+12.0% compared to fiscal 2022)

Awards Received

J.D. Power 2023 Japan customer satisfaction survey of call center for corporate technical support*

tayoreru Contact Center

We were awarded first place for overall satisfaction in all four categories

One of the largest technical call centers in Japan that provides post-implementation operational support and information. Professional staff in each field such as PC, server, multifunctional devices, CAD, and business software provide speedy support via telephone or remotely. Collaboration with engineers at our nationwide offices enable provision of one-stop support for a variety of issues.



PC & tablet category



Server category



Copier & printer category



Business software category



*J.D. Power 2023 Japan customer satisfaction survey of call center for corporate technical support
Based on 10,875 responses from companies with five or more employees. We tied for No. 1 in the copier & printer category.
japan.jdpower.com/awards

NIKKEI COMPUTER, August 31, 2023 Issue 2023-2024 Customer Satisfaction Survey

We were ranked 1st for two consecutive years in the System Operation-related Services (independent/spin-offs from end-users) sector. We significantly outperformed the companies in the 2nd place and below, by exceeding the average in all evaluation items by more than five points, mainly on "service quality" and "stable operation."



System operation-related services (Independent/spin-offs from end-users) sector

Ranked 1st

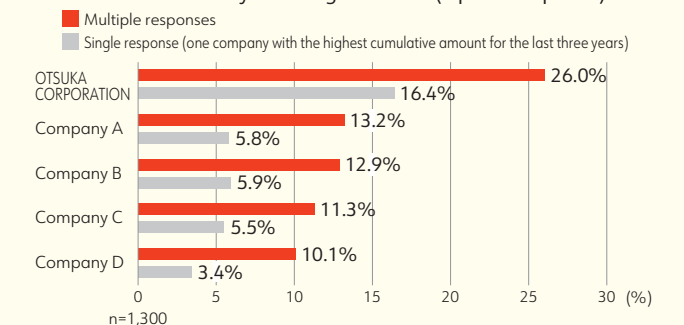
NORK RESEARCH Share of Customers in IT Product Resellers and System Integrators Used*

We were ranked 1st for two consecutive years as the IT Product Reseller and System Integrator Used, chosen by companies with annual sales of less than ¥50 billion. We will strive to gain further support from our customers by promoting "support the entire office of our customers" and assisting them with a wide range of IT products and solutions.



*2023 IT Spending and share/reputation of resellers and SIs in SME market

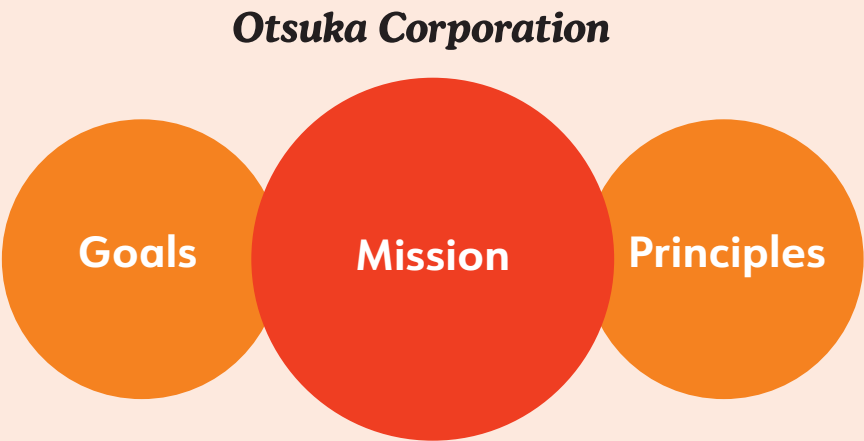
IT Product Resellers and System Integrators Used (top five companies)



Mission Statement

OTSUKA CORPORATION has declared its mission, goals, and principles within and outside the company in the form of its Mission Statement.

With the Mission Statement as our commitment to our customers, partners, shareholders, employees, and society, we 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

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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
Fiscal 2023 (from January 1 to December 31, 2023)

- To report the latest situation, the Report contains information on activities carried out after the reported period.

Guidelines used as reference

- International Integrated Reporting Framework by the IFRS Foundation
- 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 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.

Other
In the PDF version of this Report, links to websites are set for each of the items marked

President's Message

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

OTSUKA CORPORATION supports the entire office of our customers

A business model that is rare even around the world, with a breadth and depth that give it a competitive advantage

OTSUKA CORPORATION began in a small office in Akihabara, Tokyo in 1961. In those very early days, my father would go out on sales calls on his own, while my mother stayed in the office to answer the phone. Back then, I was in the lower grades of elementary school. I still remember there being whole days when the phone did not ring even once.

Turning 63 years old in 2024, OTSUKA CORPORATION has grown into a large company with 9,400 employees (consolidated basis), or more than 11,000 employees when temporary and part-time employees are included. If we include our employees' families, that number is multiplied by several times. I feel keenly the importance of my responsibilities as a management executive.

Having made its start selling copiers, OTSUKA CORPORATION's goal is now to realize its concept of **supporting the entire office of our customers**^①. This may sound greedy, but it does not actually mean that we want our customers to buy many products at once. OTSUKA CORPORATION handles a wide variety of solutions. As we continue to provide customers with appropriate support in line with their growth and to suit their situation, those customers find themselves entrusting OTSUKA CORPORATION with all their office needs. This is our vision of "supporting the entire office of our customers."

Our efforts to support the entire office of our customers are underpinned by our network of **approximately 2,400 partners**^②. As a result of expanding our product offerings in response to customers' needs, we have established a **business model**^③ that is rare even around the world, in that we handle almost every kind of product and support that an office might need. In 2023, we did business with **295,000 customers**^④, and that number is growing every year. Another unique feature of OTSUKA CORPORATION is that some 80% of our customers are SMEs with annual sales of less than ¥1.0 billion. Since its founding, OTSUKA CORPORATION has given special emphasis to **community-based operations**^⑤ and built a unique customer base that is centered on SMEs.



President & Chief Executive Officer

Yuji Otsuka

As this business model is an accumulation of plenty of facts and expertise, even if other companies tried to emulate it, they would face significant hurdles. Of course, we do have competitors in some areas. Nevertheless, OTSUKA CORPORATION has built up a major competitive advantage in terms of the breadth and depth of our business model, including product lineup, support systems, and our services that range from building solutions to operating them for our customers. Given our strong **financial base**^⑥, M&A may be considered as a way to accelerate our growth, but we do not have any such plans at this time. Of course, we would not deny the possibility, and M&A may become an option in circumstances in which we need to diversify and strengthen our business more quickly. Having said that, I prefer to enhance corporate value by continuously improving our mechanisms for

strengthening human capital and raising productivity, rather than taking the risks of spoiling the unique business model and corporate culture that we have built up over many years. If we continue to do what we need to do to "support the entire office of our customers", which we have placed at the center of our **value creation model**^⑦, I believe that we still have plenty of room to grow.

Meanwhile, we have formed **capital and business alliances**^⑧ with three AI-related start-ups in the past two years since 2022. If there is technology available that OTSUKA CORPORATION does not have, and such technology will contribute to productivity improvements for SMEs, the proactive pursuit of such alliances will lead to the

evolution of the "supporting the entire office of our customers" concept.

In July 2023, we changed the name of our "Enterprise Sales Section" to "MST (Marugoto Solutions Team)" as an initiative to encourage a change in awareness among our sales teams. It may be just a name, but renaming such a familiar organization does have an impact inside the company, and it also better clarifies the purpose of the organization. As this section plays a core role in OTSUKA CORPORATION's management strategy, the name change is also a message from me that I want them to feel proud to work under the title of "Marugoto" (the Japanese word we use to express "the entire office").

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② Talk with a Partner → P.31

③ Business Models → P.19

④ Maintenance and Expansion of the Customer Base → P.57

⑤ Talk between Sales Dept. GMs → P.40

⑥ Financial Base → P.38

⑦ Value Creation Model → P.21

⑧ Capital and Business Alliances → P.54

President’s Message

Improving engagement

By strengthening the connections between the company and our employees, I want them to feel an affection for the company and to work here for many years to come.

As mentioned elsewhere in this Integrated Report, for OTSUKA CORPORATION, people are an important asset. We have many employees, who work very hard to fulfill their individual roles. Because we have so many people with accumulated know-how and the ability to take advantage of that know-how, we are able to add unique value to the numerous solutions provided by our partners. For this very reason, I recognize that my role is to create an environment and organizational culture in which all of our employees can work comfortably and with a sense of reward. I also believe that it is important for employees to sense their own growth along with the growth of the company.

As part of such belief, we have been conducting a review of salary levels since 2022. Salary levels at OTSUKA CORPORATION are not on the low side, by any means. Our salary system is designed to incorporate company growth into employee remuneration with initiatives such as performance-linked bonuses and other incentives. Even so, salary growth in the last decade has been limited, and there was a not insignificant gap between the rate of salary growth and the rates of increase in operating profit and dividends. During the period of the pandemic when corporate performance stagnated, in particular, amid a sense of inadequate communication due to the distance between the company and the employees, I was shocked when some of our talented employees were recruited by other companies. For this reason, in July 2022, we were one of the first companies to raise the basic salary, and we have

made additional increases since then. 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 result, the average annual salary (non-consolidated) in 2023 increased significantly to ¥9.37 million, up 9.4% from the previous year. Happily, we were able to absorb the impact of those salary increases and to achieve record high levels of both sales and profit for the first time in four years (consolidated basis). With the rising cost of living and forex markets not yet settling down, we plan to implement more measures in 2024 and beyond as necessary.

We also place a special emphasis on employee satisfaction. If an employee is not happy with their company, how can they convince their customers to buy our products? While work styles and employees’ approaches to their work will continue to change, I hope that they will continue to feel affection for the company and work here for many years to come. To this end, OTSUKA CORPORATION has been promoting the use AI Happiness, an AI tool that visualizes connections among employees and the happiness levels of our employees. We have conducted employee awareness surveys since 2007 and incorporated the results of those surveys into various measures. In 2024, however, we switched to an engagement survey tool that includes new elements. Through more multifaceted analysis, we will implement detailed measures to improve engagement.



Human Resource Development

Encourage employees’ spontaneity by providing opportunities to learn. I want our employees to maintain their curiosity and spirit of challenge and to hone their appeal as human beings.

While there has been much talk about the importance of human capital management in recent years, 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.” This spirit has been inherited by our Mission Statement. As our customers each have their own, unique problems, to solve those problems, each and every one of our employees needs to be able to think independently, from the customer’s point of view. We recognize human resource development as an important management challenge to achieve that.

Our industry is changing at a rapid pace, and every time a new technology is born, we need to rewrite existing knowledge. The cost of training per regular employee in 2023 was ¥127,000, about twice the level of five years ago. Currently, we are encouraging employees to engage in reskilling and to obtain AI-related qualifications, and we hold an in-house AI ideathon event, giving them the

opportunity to make use of the knowledge they have acquired. While it is important for the company to provide such opportunities to learn, it is also important to encourage employees’ spontaneity toward learning at the same time. With nearly 10,000 employees, the opportunities for me to talk with them in person are limited. However, on occasions such as entrance ceremonies and training sessions for new managers, I tell them that the combination of knowledge, experience, and ambition is vital for people’s growth. Knowledge of various solutions and trends is necessary to realize the “supporting the entire office of our customers” concept, while experience is needed to explain such knowledge in context, in line with individual customers’ situations. Ambition is critical to continue learning about changes in technology. In addition to business skills, communication skills and personal appeal as people are also important. I want our employees to keep taking on various challenges, always with a sense of curiosity.

Otsuka Strategy

DX at OTSUKA CORPORATION
Realize productivity improvements at a high pace even while increasing staff levels

Relationships of trust with our customers are essential to the promotion of the “supporting the entire office of our customers” concept. The most important thing is that customers come and talk to us when they have a problem. Unfortunately, there still has been some feedback from customers who have told us that once we have sold them a product, they never see us again. In order to eliminate such criticism by forging new relationships with customers, we are promoting our Otsuka Strategy II.

Its predecessor, the Otsuka Strategy, was an IT-based management structure reform in which I played the leading role. After a process of trial and error over about five years, the Otsuka Strategy started full operation in 1998. The foundations of what we call DX today, such as centralized data management, revision of business processes, and strengthening of checks-and-balances functions, were completed at that time. Leveraging that foundation, we realized a scientific, data-based sales style using SPR (Sales Process Re-engineering) in 2003, and the introduction of S-SPR (SPR for technical personnel) in 2009 led to improvements in the quality of our customer support.

Prior to the introduction of the Otsuka Strategy, OTSUKA CORPORATION had adopted what is known as “human wave tactics,” in which manpower and sales growth were completely linked. However, after taking the Otsuka Strategy, our sales continued to increase at a higher pace than the growth of our workforce. This trend was particularly noticeable in operating profit. Data-driven management took firm root, which enabled us to improve our productivity exponentially.

It should be noted that, even after the introduction of Otsuka Strategy, the number of employees has been gradually increasing. I have no desire to unilaterally impose a burden on employees with measures such as layoffs and wage cuts. If we secure and educate the necessary human resources and have a system in place that allows each of them to demonstrate their abilities, we can achieve productivity improvements at a high pace even while increasing the number of employees. I believe that sharing and proposing the experience and know-how accumulated in OTSUKA CORPORATION to many customers will help SMEs in Japan to promote DX.

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18 Forging New Relationships with Customers → P.57

President's Message

OTSUKA CORPORATION, Utilizing AI

**There is a strong affinity between AI and “supporting the entire office of our customers.”
Make clever use of AI, not be used by AI.**

There are also issues to be faced. **About two-thirds of our customers purchase only one type of product from us, such as tanomail only or PCs only²³**, a ratio that has not changed for many years. As the total number of customers, that is the denominator of the ratio, is increasing, it is a matter of balance, and customers who purchase several types of products are also increasing. However, if we were to consider, ‘What if those customers that purchase one type of product were to purchase one more product?’ this would represent a major business opportunity for us. At the **Practical Solutions Fair²⁴** held in February every year, we exhibit a wide range of products and services handled by OTSUKA CORPORATION. Many customers still say that they did not know that we handle such a wide range of products. This means that we have not yet made our customers fully aware of OTSUKA CORPORATION’s true capabilities, and my sense is that there is still plenty of room for improvement in this regard. To overcome this situation, we are strengthening **AI-based support of sales activities²⁵**.

We launched a new initiative several years ago in which AI recommends customers that our sales representatives should visit and the products that they should propose to

those customers. While the judgments and actions of humans are biased in various ways depending on their own preferences, strengths and weaknesses, AI has no such prejudices. In this regard, I believe that there is a strong affinity between AI and “supporting the entire office of our customers,” and that it will be very effective. Handling products that they do not know much about has given our sales people opportunities to stretch their knowledge. In fact, there are cases in which they received an order immediately just by paying a trial visit to a company that the AI system had recommended.

AI-based analysis covers an enormous volume of data accumulated in our SPR. AI presents things that our people may have overlooked and offers insights and suggestions. In this regard, AI can provide quite groundbreaking, strong support for sales activities.

Having every individual sales representative wonder “Why did AI recommend this product?” and visit customers with multiple scenarios. This will be the key point for future use of AI. It is important to make clever use of AI and not be used by it, and to rotate AI’s learning cycle based on feedback.

Sustainability at OTSUKA CORPORATION

Strengthen the system to drive sustainability across the entire ecosystem in collaboration with our partners

We are also implementing initiatives for **sustainability²⁶**. As part of our social contribution activities in 2023, we concluded **cooperation agreements for mutual support in disasters²⁷** with 15 municipalities in Ehime, Kochi, and Hyogo prefectures, as a way of further promoting and expanding the regional support we implemented as a commemorative project for our 60th anniversary (2021). While OTSUKA CORPORATION provides community-based support for SMEs, local governments protect the lifelines of local residents. It will not be surprising if there are some commonalities in the thoughts and philosophies of the two sides. OTSUKA CORPORATION’s growth can only be realized with the support of many partners, and it cannot be realized by one company alone. Similarly, if local governments work together beyond municipal and prefectural boundaries, they will be able to create more value than when they work individually. We want to act as a bridge for such collaboration. We have made in-kind

donations to individual local governments that will be beneficial in securing lifelines, in the hope that they will be put to use for the safety and security of local communities in the event of an emergency (Awarded a Minister’s Award for the Corporate Version of Hometown Tax Payment for the Fiscal Year 2023).

Strengthening our collaborations with partners is also important. In 2022, we launched a fact-finding survey of our partners with the aims of strengthening the functions of our supply chain and identifying risks. We received responses from 34% of our partners based on purchase amounts in 2022, and the response rate increased to 62% in 2023 thanks to significant cooperation from our partners. In addition to initiatives implemented by OTSUKA CORPORATION itself, we intend to strengthen our system for the promotion of sustainability management through cooperation across the entire eco-system, such as providing feedback to partners.



To our stakeholders

**Announcement of the Medium- to Long-term Management Policy.
We will keep striding toward becoming a 100-year company.**

In July 2023, we announced our **Medium- to Long-term Management Policy²⁸**, which presented the major directions that we are aiming toward as a company. However, the Medium- to Long-term Management Policy does not differ significantly from details that we previously explained in the announcement of financial results. The IT industry is subject to hectic change. It is possible that something that had been a matter of course until the day before could suddenly disappear one day. Under such circumstances, there is little point in taking time to consider specific numerical targets for three or five years into the future. This is my 23rd year as president, and there has been no major change in our policies during that time. Our goal is to realize the “supporting the entire office of our customers” concept. This goal is one that offers infinite potential.

In 2024, we plan to achieve net sales of ¥1 trillion. This may sound like a step up from our status of a listed company to a ¥1 trillion enterprise, but it no more than a waypoint. OTSUKA CORPORATION’s raison d’être is to support SMEs in Japan with DX to energize their offices with IT. Merely using one type of product cannot be described as using IT. Since linking various different devices has made it more difficult to identify the causes of defects and malfunctions, now is our chance to let customers discover the benefits of having one company, namely OTSUKA CORPORATION, to support their entire office. OTSUKA CORPORATION’s hope is to keep increasing the number of customers who will allow us to support their entire office and to contribute to SMEs’ promotion of DX. With our employees working energetically and our many stakeholders supporting us, we will advance our journey toward becoming a **100-year company²⁹**. I appreciate your continued support.

²³ Plenty of room to grow → P.60

²⁶ Sustainability → P.61

²⁸ Medium- to Long-term Management Policy → P.35

²⁴ Practical Solutions Fair → P.75

²⁷ Concluded cooperation agreements for mutual support in disasters → P.67

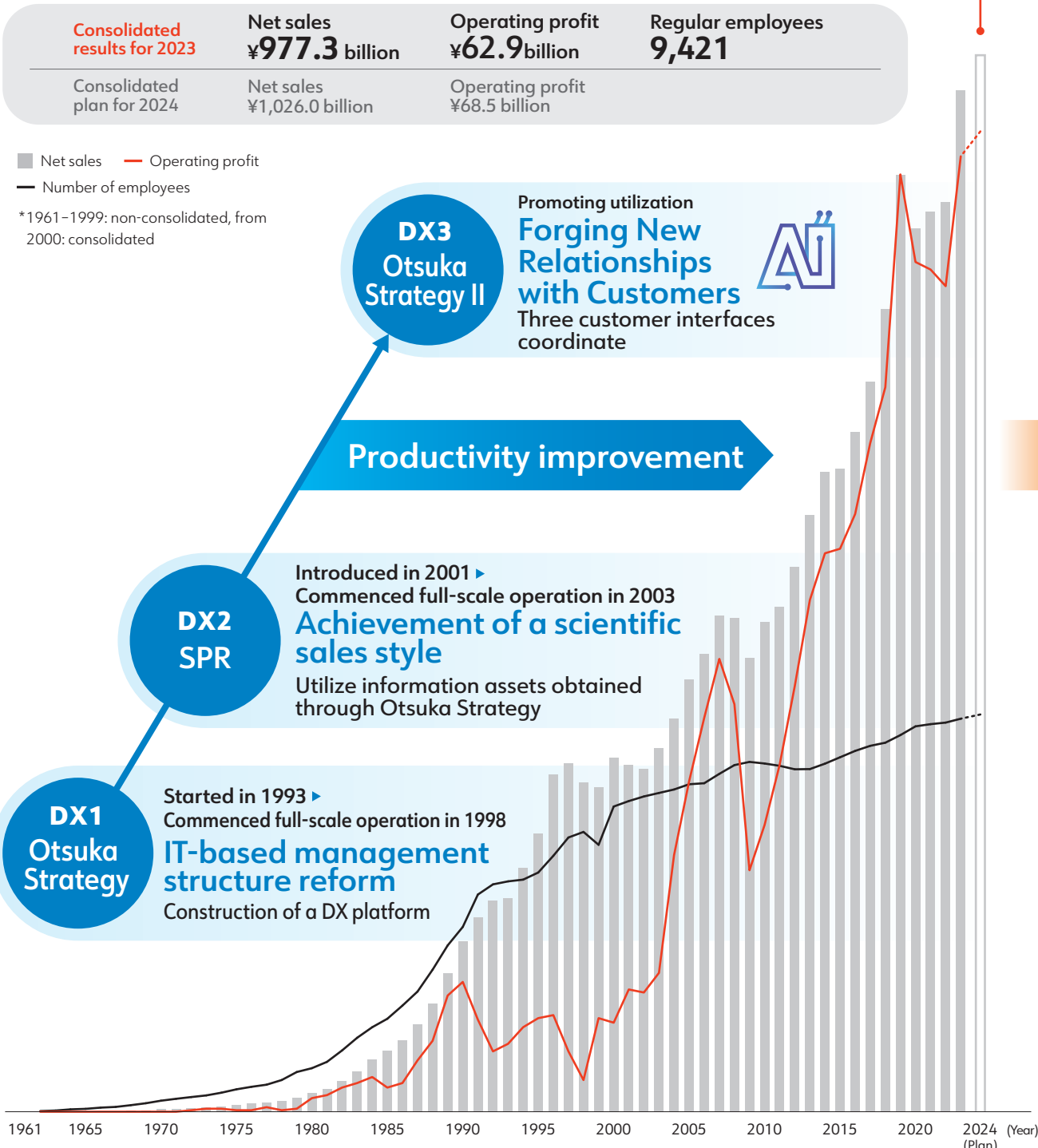
²⁹ Toward Becoming a 100-Year Company → P.06

²⁵ AI-based sales support activities → P.54

Management History

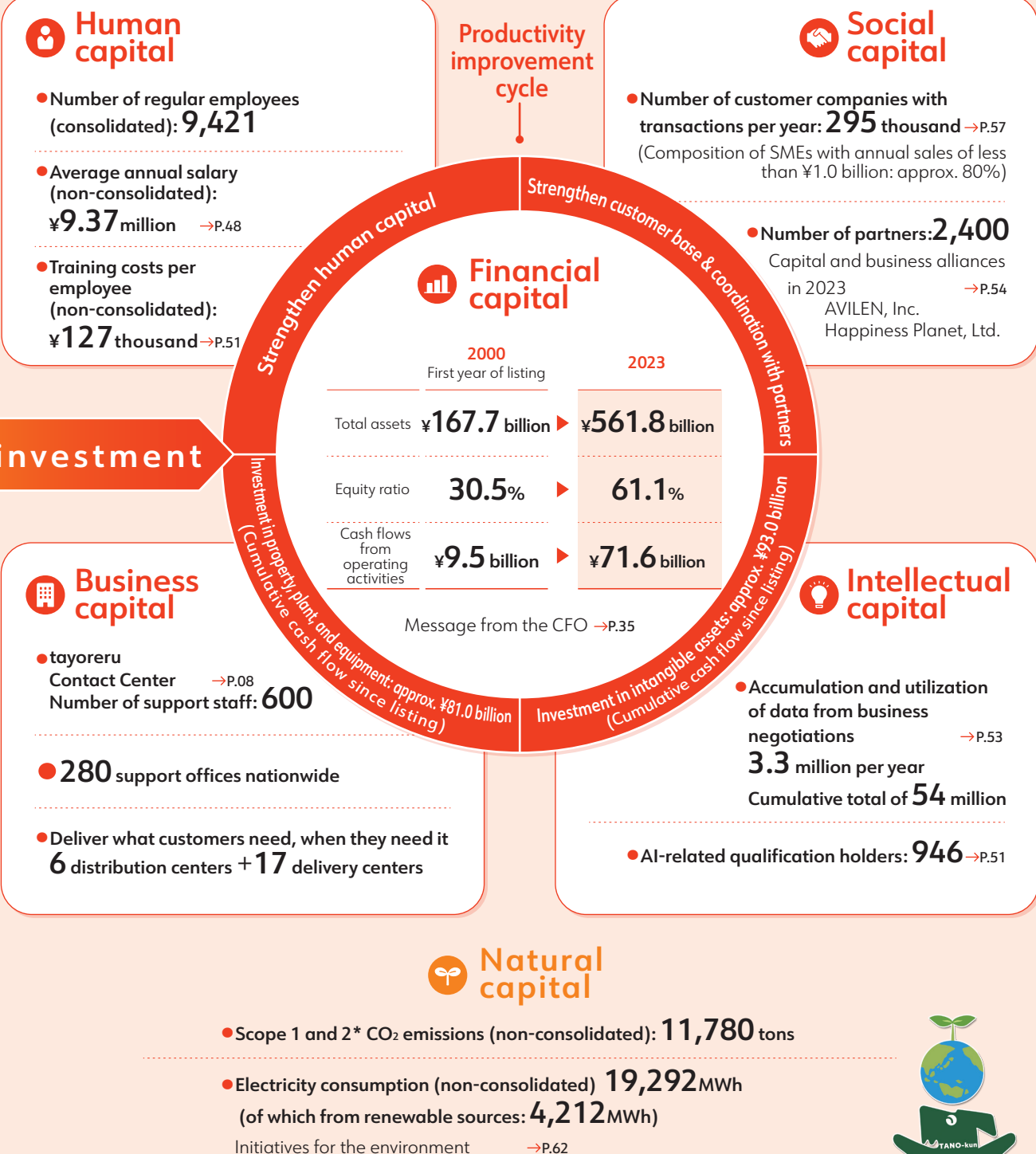
Realized data-driven management with the foundation for DX built through the Otsuka Strategy
The path of continued growth achieved by enhancing productivity by using and developing the platform

Net sales plan for 2024
¥1 trillion



Capital (Strengths that OTSUKA CORPORATION Has Built Up)

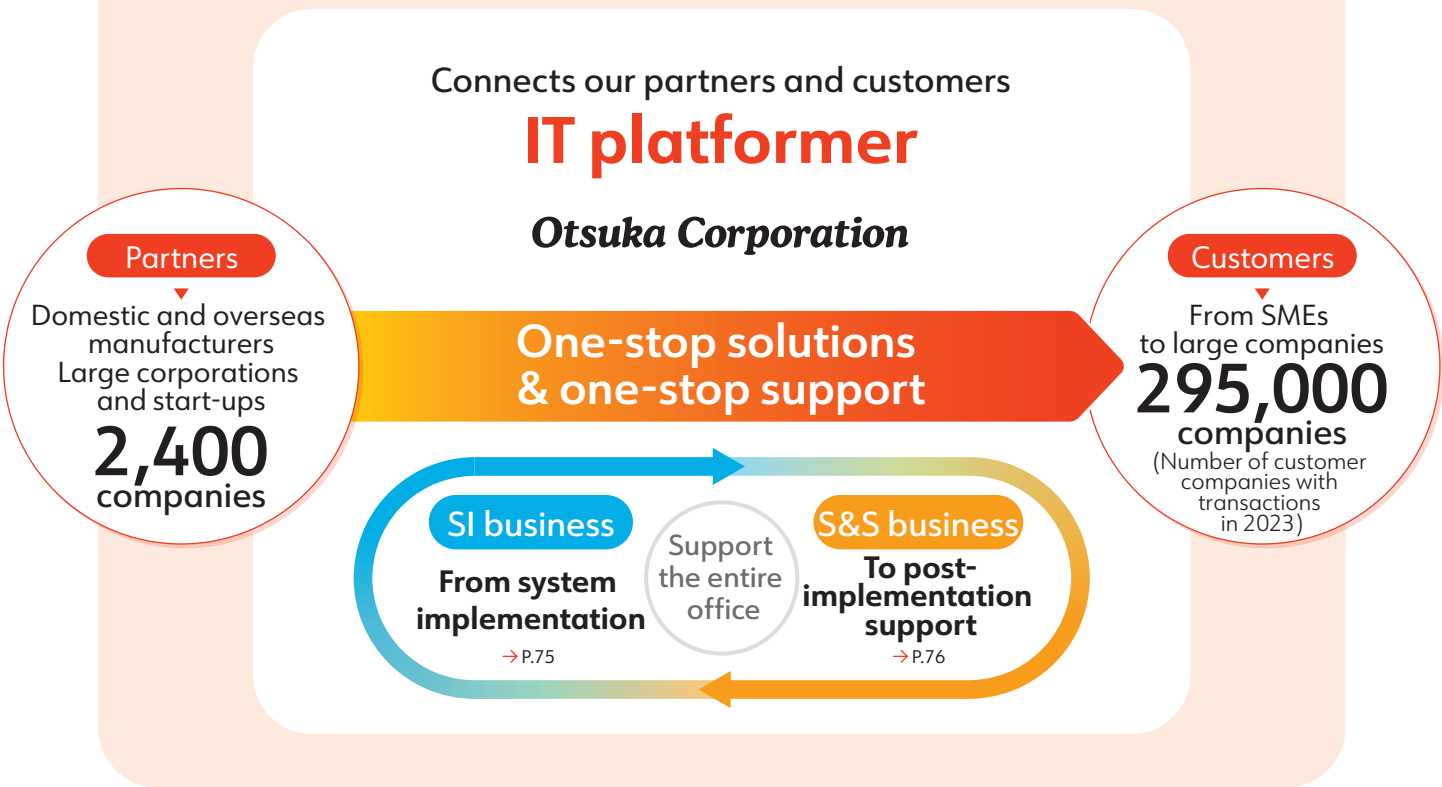
Strengthen various types of management capital by reinvestment
Continue to grow together with our customers by building a sustainable and long-term productivity improvement cycle



*Scope 2 CO₂ emissions are market-based emissions.

Business Models

Provide a wide range of products and services that solve our customers' problems at one stop



● Unique ecosystem

OTSUKA CORPORATION continues to support customers by promoting a “multi-vendor” approach in which we handle products from multiple vendors, 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. To meet customer needs, OTSUKA CORPORATION has built relationships of trust with many partners since its founding and established a unique ecosystem that can offer a wide range of products and services at one stop.

One of the characteristics of OTSUKA CORPORATION's business model is to connect our partners with customers and support the delivery of value. We are promoting enhanced cooperation with partners to expand and evolve our ecosystem to support the transaction.

The number of customers doing business with us is increasing every year. For our partners, by starting business with OTSUKA CORPORATION, they can tap into our customer base. It is more efficient for our partners to work with us than building their own marketing, sales and

support function from the ground up. It is also an effective way to utilize social capital.

In addition, sharing customers' latent 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. We are also working to expand the range of solutions we provide, including cooperation with experts in different industries such as Small and Medium Enterprise Management Consultants, to support our customers' management issues that are difficult to solve with IT alone.

Furthermore, we can provide more integrated and high quality solutions by combining each partner's areas of expertise. This will enhance our competitive edge and contribute to greater customer satisfaction more than dealing with each solution independently.

Talk with a Partner → P.31
Capital and Business Alliances → P.54



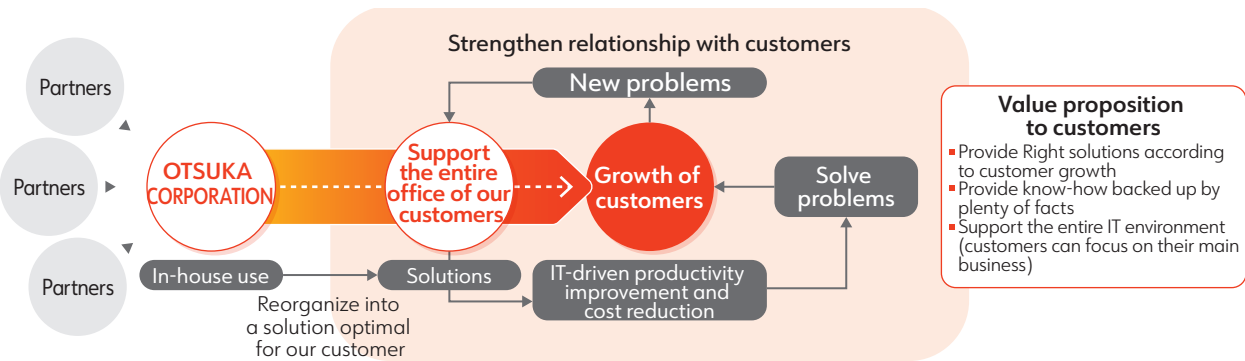
● Plenty of customer cases and our own experience

In 2023, the number of customers doing business with OTSUKA CORPORATION was 295 thousand companies. We continue to accumulate details of our business negotiation, inquiries, and support involving various customers of all sizes, industries, and departments.

OTSUKA CORPORATION itself is also a company that continues to grow by improving productivity and reducing costs through Otsuka Strategy, an IT-based management structure reform. We gain access to superior products, services, and technologies of various fields from many partners and use them ourselves. By reorganizing our

in-house use experience into optimal solutions to solve each of our customers' unique problems, we propose solutions that only OTSUKA CORPORATION can provide.

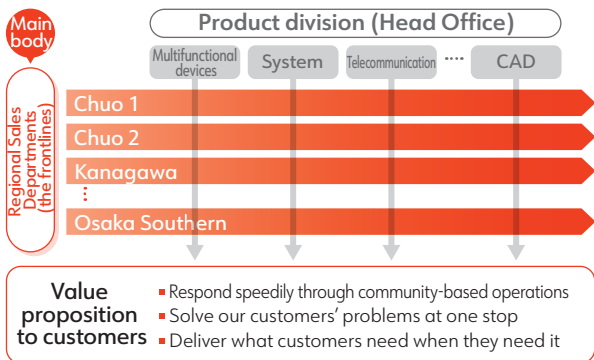
The accumulation of know-how backed by plenty of facts, including our own experience, is a source of increasing added value that leads to OTSUKA CORPORATION's growth. We will strengthen our relationship with each of our customers while also increasing the number of new customers, and support their growth to continue to grow together with them.
Forging New Relationships with Customers → P.57



● Ability to respond and support customers while staying close to them

Since its founding, OTSUKA CORPORATION has emphasized customer support that is rooted in the community. In 2016, we announced both internally and externally that we would return to our starting point, led by the Regional Sales Departments (the frontlines), and are working to increase the ability to respond and support, with emphasis on the community. 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.

Talk between Sales Dept. GMs → P.40

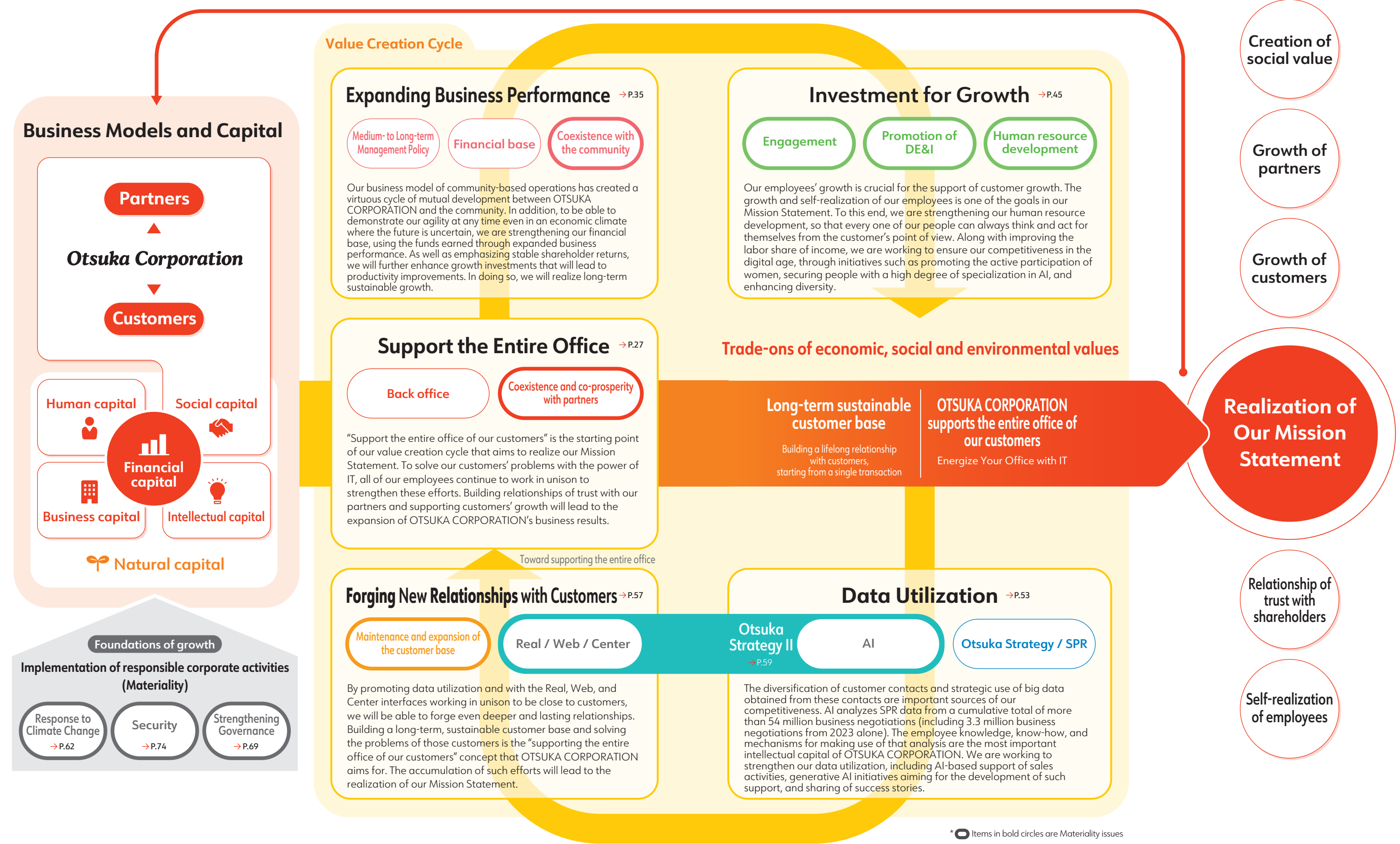


*J.D. Power 2023 Japan customer satisfaction survey of call center for corporate technical support → P.08

Ranked No. 1 in the PC & tablet category Ranked No. 1 in the server category Ranked No. 1 (tied) in the copier & printer category Ranked No. 1 in the business software category

Value Creation Model

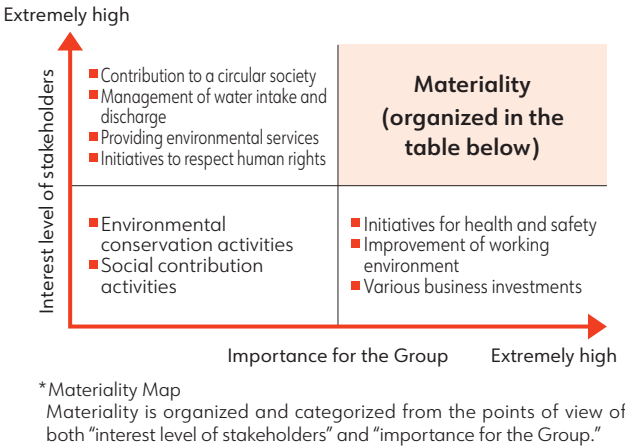
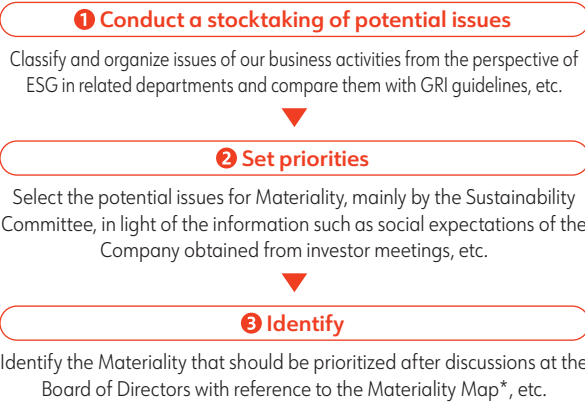
For us to realize the Mission Statement by promoting the “support of the entire office of our customers,” we will continue to contribute to the sustainable growth of society.



Materiality

We have identified three groups and nine items of Materiality toward the sustainability management that OTSUKA CORPORATION aims for. We classify and organize the issues of our business activities from the perspective of ESG, compare them with each index such as the GRI Guidelines (international guidelines on sustainability), and set the issues that should be prioritized as Materiality.

Materiality identification process



Materiality Issues for the Realization of Our Mission Statement

Value creation by promoting “support for the entire office of our customers”						Realization of Our Mission Statement	Indicators (non-consolidated)					
Materiality			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)		Desired outcomes and OTSUKA CORPORATION's missions	Indicators and main initiatives	Results (±X% indicates change from previous year; X% indicates share)			
									2021	2022	2023	This Report
Value creation through business activities	(1)	Maintenance and expansion of the customer base	P.57	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	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%	+1.1%	P.57
								Net sales per company	+1.5%	−1.6%	+12.0%	P.58
								Net sales of accumulated business	+6.2%	−2.8%	+8.9%	P.38
	(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	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	2,402 companies	—
								Supplier survey: Response rate (share of total value of purchases)	—	34%	62%	—
	(3)	Coexistence with the community	P.40	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	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	+1.7%	+4.3%	+10.4%	—
								Donations (donation to fund disaster reconstruction efforts and financial assistance for community revitalization)	¥50 million	¥100 million	¥610 million	P.67
	(4)	Improvement of employee engagement	P.47	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	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%	84%	P.47
								Management reform	—	Review of evaluations, etc.	Start of sales manager promotion system	P.48
Average annual salary								¥8.22 million	¥8.56 million	¥9.37 million	P.48	
(5)	Promotion of diversity, equity, and inclusion	P.49	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	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%	9.1%	P.49	
							Rate of childcare leave used [target: 100% by 2027]: Men	15.9%	39.3%	46.3%	P.49	
							Rate of childcare leave used [target: 100% by 2027]: Women	100.0%	100.0%	100.0%		
(6)	Human resource development	P.51	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	Create new solutions by nurturing many advanced personnel with multiple skills to contribute to a sustainable society	Training costs per regular employee	¥78,000	¥107,000	¥127,000	P.51	
Support for employee growth and self-fulfillment	(7)	Response to climate change	P.62	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	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%	−19.6%	P.62
								Scope 3 [Target: 25% reduction compared with 2021 by 2030]	—	−26.3%	Calculation underway	P.62
	(8)	Information security to provide safe and secure solutions	P.74	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	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	CP (Compliance Program) License System	Training held	Training held	Training held	—
								Confidentiality management inspections and SP Committee	Each held 12 times	Each held 12 times	Each held 12 times	—
	(9)	Strengthening governance	P.69	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	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	6	P.73
								Number of recommendations and reports of Sustainability Committee	—	4	8	P.61

Our People Committed to Supporting the Entire Office of Our Customers

For OTSUKA CORPORATION, “people” are an important asset. It is because we have many employees with expertise and various backgrounds who are able to add value to the numerous solutions from our partners.

We will continue to move toward the realization of “supporting the entire office of our customers” together with our employees.



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.”

Over the long history since our foundation, we have nurtured our unique business model, which provides a wide variety of solutions needed in the office in the form of one-stop solutions without being bound to specific manufacturers.

P.27 Back-office organizations supporting the entire office of our customers

P.31 Talk with a Partner
(Mr. Yoshihisa Aono, Representative Director & President, Cybozu, Inc.)

Back-office organizations supporting the entire office of our customers

Our sales representatives and engineers who visit customers for business negotiations and repairs have many contact points with customers. However, in order to deliver high-quality proposals and satisfactory responses more quickly to more customers, the cooperation of all

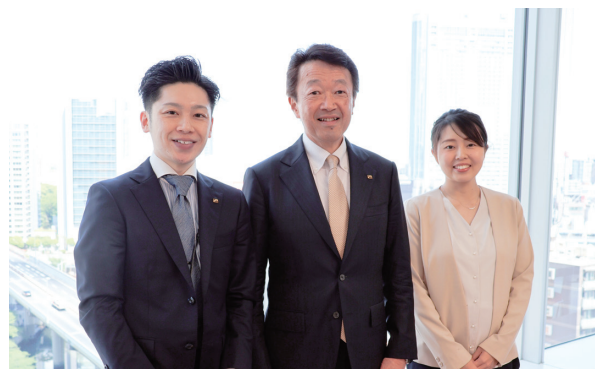
employees, including those in our back-office organizations, is critical. This Integrated Report introduces three back-office organizations that underpin the “supporting the entire office of our customers” concept, to help us understand and respond to customers’ needs.



*Numbers of staff: As of December 31, 2023. Total of regular employees, contract employees, and temporary staff, etc.

1 Sales Support Center

In addition to support of individual sales activities, such as preparation of presentations and estimates for customers, the Sales Support Center handles the drafting and implementation of plans for improving productivity in sales activities across the company. By sharing the status of business negotiations with the sales teams, we select and propose tailored solutions to solve our customers’ issues. We conduct equipment configuration surveys and other research and continue to accumulate know-how obtained. We also contribute to swift customer responses through the standardization and automation of common sales operations.



From left: Fumiya Kobayashi, Seiichi Suzuki, Madoka Iwasaki

VOICE

Seiichi Suzuki
General Manager, Sales Support Center

The Sales Support Center provides a broad range of support for sales activities before and after receipt of orders. Consolidating support operations at the Center leads to the accumulation of know-how and the improvement of quality, which allows sales reps to focus on business negotiations with customers. At the Center, we continue with activities to solve the many and varied problems of more than 2,000 sale reps, such as creating systems for the automatic preparation of standard documents, promoting the use of operational efficiency tools, and holding workshops for sales reps.

While support for individual sales activities is provided in response to requests from sales reps, the contents of some of the many requests received can be unclear. Nevertheless, we never refuse even those kinds of requests. We investigate as far as possible with the information we have. Through the steady pursuit of our tasks, including giving advice at feedback time that making the contents of requests clearer will benefit both sides, we aim to balance both sales productivity and customer satisfaction.

As a hub organization for the whole company, we are also strengthening cooperation with individual departments in our efforts to solve bottleneck issues in sales activities that only such a framework can reveal. Regarding major customers, for example, while some orders may be for large-scale, complex projects, we also often receive orders from those same customers for relatively simple, less expensive products and solutions in smaller quantities. In these cases, we work together with the Operation Administration Department (→P.29), the division responsible for processing orders, in our efforts to

VOICE

Fumiya Kobayashi
Sales Support Center

The “supporting the entire office of customers” concept covers a broad range of areas. At “Yorozu Soudan (lit. “omni-helpdesk”),” an in-house comprehensive consultation desk

that my team is in charge of, we respond to various inquiries from sales reps in our efforts for the early resolution of customers’ problems. The entire company makes use of the knowledge gathered by the consultation desk, including escalating issues to the relevant department as necessary. As well as many cases where we also attend business negotiation meetings online, acting as instructors for in-house training on operational efficiency tools is another of our important duties. We are working on initiatives to improve productivity by such means as feeding the comments received from sales reps at such training sessions back into the development of tools.

VOICE

Madoka Iwasaki
Sales Support Center

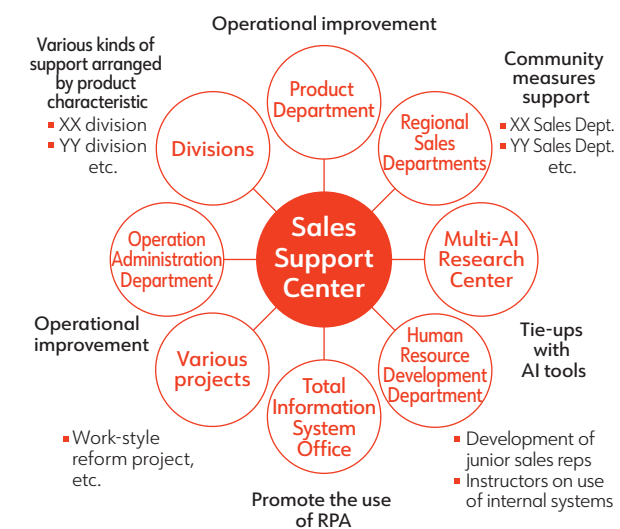
My main job is to support sales activities for tanomail. In the six years since I joined the company as a new graduate, I experienced work as a sales rep, so I had occasion to

receive support from the Sales Support Center myself. Leveraging that experience, I do my current job with the sense that ‘If I were a sales representative, this is the kind of support I would want.’ After returning to work from childcare leave, I was transferred to the Sales Support Center and I now work fully remotely. Balancing work and childcare is hard, but I feel a great sense of reward when I sense my own growth through my work, while choosing a work style that suits me.

improve overall efficiency. As a first step in this regard, we are pursuing the automation of simple processes.

In 2024, we began studying the introduction of generative AI for existing operations. We started operating and raising awareness about a Chatbot that responds to questions from all employees some time ago, and we continue to accumulate data from more than 60,000 cases per month. If we create a cycle to enhance AI by having it learn such data, we will be able to realize the simultaneous enhancement of support and improvement of efficiency. In the use of AI, we will work together with the Multi-AI Research Center, our dedicated in-house team, to take on the challenge of reforming operations, quality, and lead times.

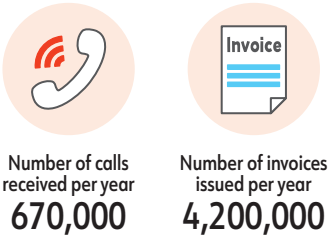
Strengthen cooperation with individual departments as a hub organization for the whole company



01 Support the Entire Office

2 Operation Administration Department

After a contract has been concluded with a customer, there are various business processes that need to be completed, such as taking orders, shipping, recording sales, invoicing, and collections. The Operation Administration Department assists with “supporting the entire office” by responding to various inquiries from customers, while providing support and conducting checks and balances of sales activities.



Naoko Sano
Managing Officer
General Manager,
Operation Administration
Department

In addition to regular operations, such as processing orders, invoicing, and collection, we attend to various inquiries from customers. We received 670,000 inquiries on telephone alone in 2023. Every one of those calls is a valuable contact point with our customers. I believe that accumulating a series of careful responses and gaining the trust of our customers will lead to “supporting the entire office of our customers.”

However, as the company has grown, our workload continues to increase. For example, the number of invoices issued per year reached 4.2 million in 2023, an increase of 1 million from ten years ago. We have been promoting the introduction of Computer Telephony Integration (CTI) and the systematization of manual data input operations for some time. More recently, we have also been pursuing responses to the new invoice system and the Act Concerning Preservation Methods for Books and Documents Related to National Tax Prepared by Means of Computers, and the digitization of invoice and contracts. It

is important that we not rest on our laurels, but continue with such initiatives to further improve productivity. Another important role of the Operation Administration Department is the checks-and-balances function. OTSUKA CORPORATION offers a wide range of solutions, and the in-house operations to realize those solutions also vary. Even an error due to a lack of awareness of the rules may cause risks that have a huge impact on management, resulting in inconvenience to customers. The trust of our customers is of paramount importance for convincing them to allow us to support their entire office. We will continue to grow while gaining the trust of customers and society through thorough checks of day-to-day operations and appropriate business processes.

Diverse roles of the Operation Administration Department



Yuka Ueda
Operation Administration
Department

As the headquarters unit of the Operation Administration Department, the Operation Administration Section to which I belong cooperates with the operational sections at individual regional sites (Regional Sales Departments) and other departments to resolve common issues within the department and improve operational efficiency. Our main work includes reviews of operations and system improvements for smoother business processing, as well as coordination with relevant departments. Our wide range of duties also includes the development of junior employees and data aggregation. I worked in the operational section of one of the regional sites until last year. Using my experience learning the practical operations at a regional site, I am trying to see things from both perspectives, namely that of the headquarters unit and that of the regional sites, and engaging in my work with an awareness of the role of the Operation Administration Section.



Rie Kokubun
Operation Administration
Department

I am in charge of operations related to maintenance contracts with customers. When new services are being considered, this also gives me an opportunity to encounter the latest solutions during my involvement in building operational flows. Whenever I investigate the status of customer contracts, I am surprised anew by the vast number of customers that have given their trust to OTSUKA CORPORATION. OTSUKA CORPORATION’s maintenance services play an important role in supporting our customers’ day-to-day operations. Net sales in the maintenance business is approaching ¥150.0 billion a year, and it continues to grow every year. While it is quite a responsibility, my work is also very rewarding because I can sense its connection with the growth of the company.

3 Product Department & Logistics Promotion Department

To solve our customers’ problems, it is important to maintain stable supply capacity even in the midst of supply chain disruptions due to the pandemic and other reasons. While demand changes on a daily basis, we strive to focus on forging close relationships with partners and strengthening our procurement, inventory, and logistics functions.



From left: Kiyomi Deguchi, Hiroshi Iwamiya, Kaoru Wakasugi

Hiroshi Iwamiya
Managing Officer;
General Manager,
Product Department; in
charge of Logistics
Promotion Department

The Product Department and Logistics Promotion Department support the procurement, inventory, and logistics functions of OTSUKA CORPORATION and engages in activities that form the foundation of “supporting the entire office of our customers.” With more than ¥500.0



replacement of PCs due to the termination of support for Windows 10 and the NEXT GIGA program scheduled from 2024 and into 2025. We will strive to improve the accuracy of demand forecasting by sharing with sales reps the status of business negotiations with customers and making use of AI. In the area of logistics, we are already using AI at our Yokohama Distribution Center, which opened in 2021, for the optimization of inventory placement. Logistics functions have been strengthened with various initiatives, such as the relocation and floor area expansion of the Chubu Distribution Center in 2023. We will also strengthen cooperation with logistics partners in our efforts to respond to the “2024 problem” of legislated restrictions of drivers’ overtime hours. Along with these initiatives, it is also important to create opportunities for Product Department staff to actually see and touch the products for themselves. As of December 31, 2023, the number of products offered by OTSUKA CORPORATION was approximately 3 million. Although this is an enormous number, I hope that our staff will work on ordering and inventory management with more responsibility by actually seeing and touching the merchandise with their own hands, instead of just viewing them as data. In 2022, we formulated our Sustainable Procurement Policies and Guidelines. In addition to the responsibility of individuals, by putting responsible procurement management into practice as a company, we will realize “coexistence and co-prosperity with partners,” which is one of our materiality issues, and continue to contribute to the promotion of the “supporting the entire office of our customers” concept.

Kiyomi Deguchi
Product Department

The Product Department is responsible for the strategic procurement of various products and solutions. I have the important role of managing accounts payable and incentives payments. While working to make improvements with a constant awareness of working in ways that are in tune with the times, I try to be considerate of others, both inside and outside the company. In this way, I see myself as the labor in the background that assists “supporting the entire office of customers.” As a female employee in a management position who has taken maternity and childcare leave twice, I also take part in company-wide projects to promote diversity. I hope to support work styles that enable employees to further balance job satisfaction and work comfort.

Kaoru Wakasugi
Logistics Promotion
Department

Here at the Logistics Promotion Department, we support our customers’ business from the logistics aspect. As the number of customers doing business with us is increasing every year, the optimization of logistics sites constantly translates directly into management issues. My main job is to realize DX of warehouse facilities through cooperation with third-party logistics (3PL). In particular, cost management aligned with profitability and the construction of sustainable logistics infrastructure for the future are major themes for our department. The environment surrounding logistics is growing harsher every year, including the “2024 problem.” Embracing the challenges ahead, our aim is to improve quality every day, in addition to our goals of productivity improvements and smooth provision of merchandise to customers.

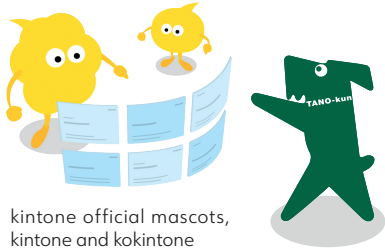
01

Supporting the Entire Office | Coexistence and Co-prosperity with Partners

Materiality 2



Partner collaboration to advance each other’s ecosystems supporting Japan’s DX



Without collaboration with our partners, OTSUKA CORPORATION could never hope to realize our aim of “supporting the entire office of our customers.” What kind of value is OTSUKA CORPORATION able to offer those partners? In March 2024, at the Tokyo Office of Cybozu, Inc., Mr. Aono and Mr. Tokura talked about their respective intentions, the partnership going forward, and Japan’s future.

Cybozu, Inc.

“Building a society brimming with teamwork” with kintone

Aono Cybozu was founded in 1997, which is 27 years ago.

Tokura Wow! I’ve always thought of you as a start-up, so that’s quite surprising.

Aono Well, we are actually a veteran start-up (laughs). We began when the internet was just starting to flourish in Japan. We were prompted by the thought that if companies’ information sharing was smoother, people would be able to enjoy their work more.

Tokura Your corporate philosophy is “Building a society brimming with teamwork,” isn’t it?

Aono That is Cybozu’s raison d’être. There is still not enough teamwork in the world, and we want to contribute to its advancement. Our efforts are currently focused on kintone, which is a cloud service that supports teamwork with a no-code work improvement app.

Tokura When I was working in sales, I was selling software

packages that included Cybozu Office and Garoon. My impression at the time was that you suddenly came out with kintone.

Aono For a short while after we began, we dealt mainly with software packages, but as we continued to respond to customers’ needs, the contents of those packages were becoming increasingly complex. We started to feel that there was a limit to what packaged software alone could do to support the teamwork of our customers, which are involved in diverse industries and formats.

Tokura OTSUKA CORPORATION also had occasion to ask Cybozu to strengthen its package functions. Our sales reps often used “This function is one that OTSUKA CORPORATION asked to be added,” as part of their sales pitch, but we could not keep adding on more and more functions indefinitely.

Aono After much trial and error, the conclusion we came to was that we should entrust customization and support to our partners and that we should work with more certainty on the core parts. That change in course is what led to the

birth of kintone. There have also been examples of our partners inviting in new partners, which is serving to expand the kintone ecosystem.

Tokura API links with partners and plug-ins are also being enhanced, and the kintone world will expand even more, won’t it?

Aono AI-based linking services have also been increasing recently. With some services, if you tell generative AI what you want, it will create an app for you. Just having to drag-and-drop is an advantage of no-code tools, but with AI, even that is no longer needed. We are going to see more and more changes in what humans need to do, so we are heading into interesting times.

OTSUKA CORPORATION

Growing together with our customers by sharing our own experience and know-how

Tokura I joined OTSUKA CORPORATION as a new-graduate recruit, in 1991, 30 years after its founding. I was assigned to sales, selling copiers. I worked in the Osaka sales branch at the time, and I would race all over town carrying reams of copy paper. In those days, the branches issued invoices on office computers, and they all had their own inventory of copy paper, toner, and copiers. In those days, the branches issued invoices on office computers, and they all had their own inventory of copy paper, toner, and copiers. I could do everything on site.

Aono I imagine that this made for quite fast-paced and aggressive sales activities.

Tokura We certainly had agility, but there may have been weaknesses in terms of checks and balances. However, with the appointment of our current president, Yuji Otsuka, the frontlines were greatly transformed, and the tasks that the sales reps needed to perform were consolidated. The sales reps found that they could no longer do some things that they could do previously, and there was some pushback from the frontlines, who were worried that they would lose customers. However, this changed to a mindset of doing the right thing as a matter of course, which prompted customers to say that we had become a proper company.

Aono I imagine that such a transformation of processes must have been a major decision for management, given OTSUKA CORPORATION’s large workforce.

Tokura I have been with OTSUKA CORPORATION for 33 years now, and I never thought then that the company would change as much as it has. Looking back, it has been a matter of taking the time to improve productivity by reviewing work processes and using IT, which in today’s terms is DX (→P.17). When I joined the company, there were 4,000 employees, and 850 new graduates were recruited. Even if you discount the fact that this was during Japan’s economic bubble period, that is still a huge intake.

Aono 850 recruits? Wow! That’s enough to create a whole company.

Tokura Until the company transformed, to improve performance, we had to hire more people; increasing the workforce was the company’s growth driver. Changing that mechanism and sharing the know-how for improving productivity with customers are now leading to OTSUKA CORPORATION’s growth. I don’t think that there are many companies like that. The use of the word “Shokai” in kanji in the company’s Japanese name for a company of this scale is also rather unique (laughs).

Aono You might be right. But it also makes it an easy name to remember (laughs).

As the drama of Japan’s turning the tide begins, the two companies will combine their strengths to raise Japan’s productivity.

Aono In Japan, COVID-19 caused an almost forced acceleration of remote work. Work styles changed and digitalization progressed. There were many people who had never done online meetings until then, and probably some people learned for the first time that their laptop computers had a camera. What kind of impact did the pandemic have on OTSUKA CORPORATION?

Tokura We had already been putting remote working environments in place before the pandemic, so we were able to work quite smoothly. However, some branches were having trouble putting paperless systems to good use, and there were cases in which staff members had to take turns to come into the office just to check documents and stamp seals on them.

Aono Even if the mechanisms and functions are there, if they are not being used, it’s the same as not having them at all, isn’t it?

Tokura It made me realize anew that it all comes down to the services provided being actually put to good use. Some 80% of OTSUKA CORPORATION’s customers are SMEs with annual sales of less than ¥1.0 billion, and they are suffering from labor shortages. One of our strengths is our physical workforce of sales reps and engineers, and it is important that they properly check the state of operations at our customers onsite.

Aono The ability to actually call on customers and meet with them face-to-face is one of OTSUKA CORPORATION’s strong suits, and my impression is that you have strong sales capabilities.

Tokura When activities were restricted during the pandemic, we were unable to make those visits, so online sales meetings became the norm. Taking advantage of that experience, we are now able to realize hybrid sales activities, using personal visits and online meetings as the situation demands. In the respect that we now have more variations of sales styles, the pandemic experience has, I believe, had major significance for OTSUKA CORPORATION. On the other hand, even with the progression of digitalization during the pandemic, Japan still lags behind in the promotion of DX, and they say that

01

Supporting the Entire Office | Coexistence and Co-prosperity with Partners

Materiality 2

its labor productivity is lower than other industrial nations. What do you think the reasons for that are?

Aono Cybozu also does business in the United States. If we compare Japan and the United States, because the United States has a deeply embedded culture of mid-career job changes, workplaces can experience quite frequent changes of personnel. A practical way to ensure that such a high turnover of staff does not cause the work to get bogged down is to install a software package that makes it easy to start the work as long as you learn how to operate the software. On the other hand, in Japan, long-term employment is common, even in the same industry, and different companies have different ways of doing things, so software packages are no use in that regard. Companies use systems that have been customized for them at a significant cost. I believe that this is a major factor behind the difficulty in progressing DX in Japan.

Tokura I have also sensed that the result of optimization for individual companies has been the inability to achieve standardization across Japan as a whole. At OTSUKA CORPORATION as well, every time there is a legislative amendment, our engineers have been kept busy responding to customization demands, to the point of exhaustion.

Aono However, with the emergence of no-code cloud tools, I feel that the drama of Japan’s turning the tide has begun. Japan has many people who, while they are not very good with IT systems, are highly familiar with operations and their processes. We have entered an era in which even people like that will be able to produce work improvement apps with ease. They can take advantage of the operational know-how that has been locked inside each individual workplace to create an app easily without codes. Also, because it is cloud-based, the barriers to installation are low, and any functions needed can be added with API links and plug-ins. With the elimination of silos, things that were previously invisible become visible, and teamwork can be made stronger than ever.

Tokura It is important to understand that customization is not the only option. For core systems that need to be differentiated from other companies, it is necessary to spend a lot of time with an engineer to design it properly.

However, for other, more general work, we need to think flexibly, such as changing work processes to suit the tool.

Aono In fact, we are receiving an increasing number of inquiries about kintone from customer’s departments other than information system departments. As this becomes more common, the speed of operational improvements should increase dramatically, and Japan’s productivity should improve.

Tokura Even with no-code offerings, there are still many customers who have trouble putting them to good use. Many SMEs don’t even have an information systems department. Even if they want to proceed with operational improvements, they have nobody to consult, and they tend to become isolated. It is the role of OTSUKA CORPORATION to support these kinds of people, and our checking the actual status of operations at various workplaces will lead to the promotion of DX as well.

Getting people think and decide for themselves.

“100 People, 100 Workstyles”

Tokura In promoting DX, there are also other barriers. The reform of organizational culture and the development of workplace environments.

Aono At Cybozu, we believe that, while aiming to build a “society brimming with teamwork,” more than ever we need to become a “company brimming with teamwork” ourselves.

Tokura The people working at Cybozu shine, don’t they? I sense an organizational culture that allows young people to try many different things. What kind of secret ingredient do you use in your organizational management?

Aono One point in the “culture” part of our corporate philosophy is “emphasis individuality.” To put it another way, it means to “express your individuality.” Cybozu’s culture is to think for yourself about where you want to work, what kind of work you want to do, and how much you want to earn. That is because there are “100 People, 100 Workstyles.”

Tokura Thinking up all that for yourself might be quite a hard thing to do.

Aono I imagine there are some employees who are unable to keep up. For people who want to do the work they are told to do in the place and at the time they are told, it must be nothing but torment. However, for employees who are able to think and make choices for themselves, we are a place where they can work in a way that is true to themselves.

Tokura As is the case with creating an organization that allows people to think for themselves, many companies may face a hurdle in creating the corporate culture that will provide the foundation for that organization. At OTSUKA CORPORATION as well, one of the principles in our Mission Statement, which is our corporate philosophy, is “Maintaining the spirit of challenge inherited from our

predecessors, exercising our own critical judgment, and acting on our own initiative.” However, not all of our employees are necessarily able to put this into practice.

Aono The Japanese people, in a sense, is not accustomed to thinking and deciding for oneself. In our education, following the rules is seen as a virtue. We have to study according to the timetable and do the set homework during summer vacation. Children who do everything just so are commended as good children. Around the world, there are environments that allow people to focus only on what they want to study, but that is difficult in today’s Japan. We won’t make progress with digitalization and DX if we are waiting for someone to tell us what to do.

Tokura What do you see as important for getting employees to think and make decisions for themselves?

Aono I think that talking to employees and thinking together with them is important. One employee suggested that the company could pay for the coffees that people drink when they are doing their work in a café, and ultimately, I approved that suggestion. Even though I worried about whether we really needed to go that far, instead of rejecting it immediately, I thought that, if employees know that management will discuss and think about their suggestions together with them, they will think hard to come up with suggestions.

Motivation is key.

Strengthening links as partners that will work alongside our customers

Aono We have been working with OTSUKA CORPORATION for over 20 years. You have been a very strong partner to us, winning awards in Cybozu’s sales awards program 16 years in a row and winning the top ranking in our partner commendation program two years in a row. In particular, one strength of OTSUKA CORPORATION, is that you are able to build relationships with multiple departments at your customers, not just a single department, and make comprehensive proposals.

Tokura Thank you. We have continued to support our customers with a wide range of solutions, from office supplies to AI. We are placing efforts into an integrated DX package that integrates core systems and information systems, and I am hoping that we can pursue links with kintone further than ever in this area.

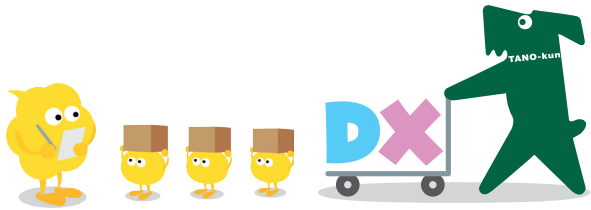
Aono kintone is link-friendly with a variety of systems. Neither the industry nor the size of the customer is an issue.

Tokura We do business with customers of many different sizes and in many different industries as well. If you look at the overlap of customer groups too, I think that Cybozu and OTSUKA CORPORATION are very compatible. What kind of strategies are you thinking of pursuing going forward?

Aono What we are aiming for at the moment is to encourage customers that have adopted kintone only in certain particular departments to deploy it across their organization and make it the foundation for company-wide

DX and information sharing. To achieve this, cooperation with partners will be important. It is impossible for us to provide everything, from proposals to support, for all customers by ourselves. We will need OTSUKA CORPORATION’s help to strengthen our ecosystem.

Tokura OTSUKA CORPORATION has also been pursuing “support for the entire office of our customers” for the past several years. We have a wide range of solutions available, but for many of our customers, we only do business with a small portion of those offerings. That is our challenge. That direction of wanting to deepen our relationships with our customers and support them more than ever is something that we share with Cybozu. By strengthening our collaboration even further, let’s help to increase our customers’ and Japan’s productivity.



Aono Looking 10 or 20 years into the future, what we want to convey to Japanese companies is that, now that they are armed with the cloud and no-code tools, the chance has arrived for Japan, which has been seen as a loser in the digital battle, to create digital environments that surpass those of the West. All that remains is the motivation to do it. As long as that motivation is there, it will not be a difficult feat. We want more Japanese companies to take on the challenge of digitalization and DX together with OTSUKA CORPORATION and our other partners. Only those companies that are able to overcome this challenge will win the battle for the 21st century.

Tokura My sense is that installation of the system is just the beginning. Take your time to keep improving the system while running it. With the new time and ideas that are generated as a result, reexamine the processes. It is this kind of cycle that is important. Instead of launching a DX promotion office with great fanfare, I feel that it is persevering with solving each issue one at a time that will result in DX. To achieve this, companies will need partners that will run alongside them. We at OTSUKA CORPORATION will continue to stay close to our customers. We want to help energize Japan together with Cybozu and our other partners, so we look forward to continuing to work with you. Thank you so much for talking to us today.



02 Expanding Business Performance



Managing Director & Executive Operating Officer

Hironobu Saito

Respond to Trust by Promoting the Realization of Our Mission Statement

Message from the CFO

- P.35 Medium- to Long-term Management Policy
- P.37 Review of 2023 Business Results
- P.38 Financial Base
- P.40 Talk between Sales Dept. GMs

I Medium- to Long-term Management Policy [→ Web](#)

● Basic approach

We announced our Medium- to Long-term Management Policy and held a briefing session in July 2023.

COVID-19 has dramatically changed the environment surrounding our business and work styles. OTSUKA CORPORATION saw an increase in demand with the expansion of teleworking, especially in 2020 when the spread of COVID-19 was in full swing. Meanwhile, we were affected by a decrease in sales of some office supplies and maintenance services for copiers. In response to such situations, we have reorganized OTSUKA CORPORATION’s initiatives to build a long-term sustainable business model that can withstand any environmental changes into a Medium- to Long-term Management Policy.

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
- Slightly expand 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

● KPIs and 2023 results

We have set KPIs and their targets in order to manage the progress of medium- to long-term operational conditions. A table on the right shows the comparison with the 2023 results.

Although we should not waver between hope and despair seeing the results of each single year, we will continue our efforts for the items that exceeded our target, and for those we did not achieve the target, we will work to analyze factors and take necessary actions. The reasons for setting each KPI and current status are as follows.

However, there are no major changes compared to OTSUKA CORPORATION’s policy, which we have explained, of promoting the realization of our Mission Statement to respond to trust by our stakeholders. We intentionally did not disclose specific numerical targets for the next several years.

The IT world in which OTSUKA CORPORATION has its businesses is a fast-changing industry where various technologies, including generative AI, are being updated somewhere in the world, even at this moment you are reading this report. In addition, it is extremely difficult to predict irregular factors, such as the global financial crisis following the collapse of Lehman Brothers, COVID-19 pandemic, regional conflicts, and monetary policies, that affect global economic conditions.

As it is difficult to precisely predict the economic conditions, we believe that, instead of devoting our efforts and time to make predictions, it is more important to develop the ability to flexibly respond to changes in the environment, with full awareness of the possibility that assumptions may change.

KPI	Target	2023 results	Difference from the target
Relationships with customers			
Number of customer companies with transactions per year	+2.0%	+1.1%	(0.9)%
Net sales per company	+3.0%	+12.0%	+9.0%
Operating profit and ordinary profit			
Average annual growth rate	+6.0%	+15.0%*	+9.0%
Profit margin	7.0%	6.4%*	(0.6)%
ROE	13.0%	14.3%	+1.3%
Dividend payout ratio	50.0%	53.9%	+3.9%

*Growth rate and profit margin stated above are those of operating profit.

Net sales

In order to strengthen relationships with customers to increase the top line, we have set two KPIs for net sales: number of customer companies with transactions per year and net sales per company.

Although the number of customer companies with transactions per year steadily grew by +1.1% (an increase of 3,000 companies from the previous year), it did not reach our target of +2.0%. The number of customer companies with transactions in 2023 was 295 thousand, which is close to 300 thousand. To exceed our target of +2.0%, we need to do business with six thousand new customers, which is not easy, given the fact that the number of companies in Japan is decreasing every year.

However, OTSUKA CORPORATION offers a wide range of solutions, and the number of merchandise we offer as of December 31, 2023 was approximately three million. There

are many customers who purchased/introduced only a small portion of our products/services or do business with us only once every few years. We have worked to strengthen our initiatives to further enhance our capabilities to propose approximately three million merchandise to our 300 thousand customers, utilizing AI, which we currently promote, and further strengthen our customer base.

Meanwhile, net sales per company was +12.0%, well above our target of +3.0%. Although we are still halfway, we feel that we have made good progress in our efforts to offer multi-product proposals and support the entire office by utilizing a wide range of merchandise to customers with whom we have established relationships, and we will continue and strengthen our initiatives.

Maintenance and expansion of the customer base → P.57

Profitability

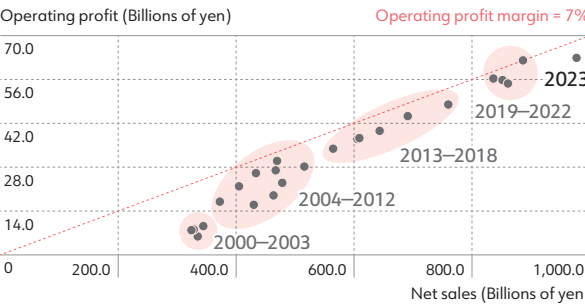
In terms of profitability, we have set two KPIs and their targets: increasing operating profit and ordinary profit by 6.0% each and realizing a steady 7.0% or more for profit margin.

If we curb procurement costs and personnel costs, it will be possible to achieve them 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.

OTSUKA CORPORATION delivers a variety of solutions provided by approximately 2,400 partners to a wide range of customers. The size of our business ranges from less than ¥100 thousand to ¥1.0 billion or more. Instead of curbing procurement costs to control gross profit margin, we continue to grow the top line by exceeding targets of KPIs for sales. And while securing appropriate gross profit, we continue to grow with our customers and partners. This is the idea that underlies our KPIs.

As for selling, general and administrative expenses, half of them are personnel costs for our employees. We will continue to grow with our employees by distributing an increase in gross profit to them, and implementing various measures to support their self-fulfillment (→ P.46 History of human resource strategies). On top of that, we will work to achieve profitability that exceeds our targets.

Net sales and operating profit (2000–2023)



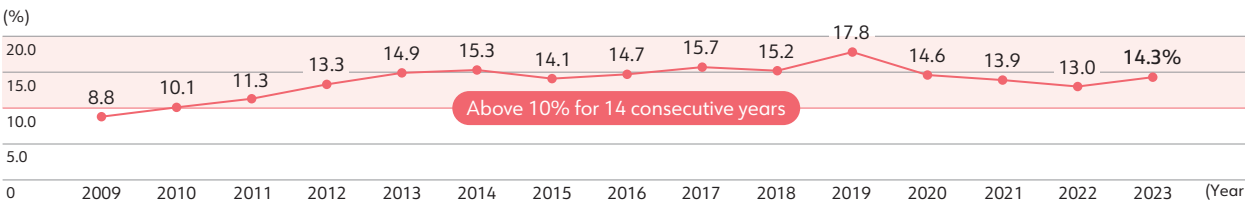
Investor-related indicators

We have set two KPIs as indicators related to investors: ROE and dividend payout ratio.

► ROE

We have considered other indicators such as ROIC; however, OTSUKA CORPORATION’s interest-bearing debt is only ¥8.1 billion (as of December 31, 2023). Cost of shareholders’ equity and WACC are close to each other,

and we have concluded that it is more preferable to use ROE as an indicator to discuss capital efficiency with investors. In 2023, we could achieve ROE of 14.3%, exceeding our target (13.0%). We will continue our efforts to maintain and improve the level of ROE by increasing profit.



02

Expanding Business Performance

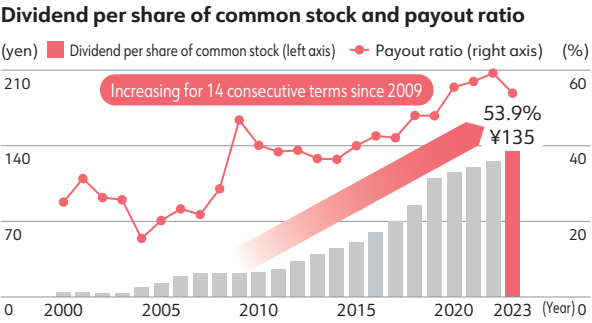
▶

Dividend payout ratio

OTSUKA CORPORATION has set 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 (target of dividends payout ratio: 50% or more).

For the fiscal year 2023, we returned profits to the shareholders who have supported us, with a dividend per share of common stock of ¥135 (an increase of ¥10 from the previous year), which exceeded the initial plan (¥130). We have executed a two-for-one stock split in April 2024, for the purpose of expanding our investor base and increasing stock liquidity. For the fiscal year 2024, we plan

to pay dividends of ¥70 per share of common stock (¥140 if the stock split is not taken into account), an increase for the 15 consecutive terms.



|

Review of 2023 Business Results

In 2023, each item achieved double-digit increase from the previous year, and on a quarterly basis, net sales and operating profit increased for the seven consecutive quarters.

In July, we revised net sales and operating profit plan upward, adding ¥53.0 billion and ¥3.6 billion, respectively to our initial plan, on the back of strong performance. Both net sales and profits have achieved the revised plan.

Consolidated results for 2023		(Billions of yen)	
	Amount	Compared to revised plan	Year on year change
Net sales	977.3	102.4%	+13.5%
Operating profit	62.9	101.2%	+15.0%
Ordinary profit	64.5	101.8%	+13.9%
Profit*	47.4	111.1%	+18.6%

*Profit attributable to owners of parent

●

Demand for IT investment has been firm. Spurring business negotiations based on face-to-face customer visits

Economic activities have been normalizing as COVID-19 has been reclassified as a Class 5 disease. Our customers' demand for IT investment to improve productivity and reduce cost has been firm, including response to the invoice system and the Revised Act on Special Provisions concerning Preservation Methods for Books and Documents Related to National Tax Prepared by Means of Computers. We were able to capture such demand by spurring our business negotiations based on face-to-face customer visits utilizing OTSUKA CORPORATION's strengths, which is one of the reasons for our strong financial results.

tanomail business, an important contact with our customers, remained strong, with its net sales exceeding ¥200 billion for the first time.

Meanwhile, due in part to the prolonged depreciation of the yen and the impact of high prices of resource and commodities, OTSUKA CORPORATION's procurement costs have also increased. We will work to carefully explain to customers and improve quality commensurate with the price increase, thereby promoting our sales activities at reasonable prices.



●

Absorbed increase in personnel costs and achieved record-high profit

We have reviewed our salary levels since 2022, and average annual salary (non-consolidated) in 2023 increased significantly to ¥9.37 million, up 9.4% from the previous year.

We achieved our highest consolidated profits for the first time in four years since 2019. We would like it to be noted that we achieved the record profits even after we further strengthened the salary levels compared to those in 2019.

Training costs per employee also increased significantly for two consecutive years. We will continue our initiatives to improve our productivity so that we can increase net sales and profit more than the costs related to the increase in the number of employees, by enhancing skills of our employees.

Consolidated results for 2023 (compared to 2019)		(Billions of yen)	
	2019	2023	Change
Net sales	886.5	977.3	+90.8
Gross profit	179.9	203.9	+23.9
Selling, general and administrative expenses	117.8	141.0	+23.2
Personnel costs	59.0	69.5	+10.4
Other	58.7	71.5	+12.7
Operating profit	62.1	62.9	+0.7

Improve the labor share of income → P.48

Training costs per regular employee → P.51

Operating profit per employee → P.39

●

Profit increased significantly by utilizing tax system, substantially exceeding our plan and previous year's results

With regard to an increase in personnel and training costs associated with strengthening human capital, we utilized tax measures to promote wage increases to curb our income tax burden by approximately ¥2.4 billion. The total decrease in income tax burden, taking into account utilizing the tax system to support regional revitalization (a corporate

version of the "hometown tax" donation system) and consolidated subsidiaries, is approximately ¥3.2 billion. Due in part to this effect, profit attributable to owners of parent significantly exceeded our plan and the previous year's results.

●

Toward a new stage of growth in 2024. Giving a challenge to achieve net sales of ¥1.0 trillion

In 2024, we plan to achieve net sales of ¥1,026.0 billion (+5.0% year-on-year), operating profit of ¥68.5 billion (+8.8%), and profit attributable to owners of parent of ¥47.6 billion (+0.5%).

We will give a challenge to achieve net sales of ¥1.0 trillion level. We will work to firmly exceed our two KPI targets: number of customer companies with transactions per year and net sales per company. At the same time, we will

proceed with replacement of PCs to respond to the end of support for Windows 10, which is expected in the second half of the year, and NEXT GIGA.

We will continue to review the employee salary levels, if necessary, in 2024, using the increase in gross profit from growing the top line as a source of funds.

We will do our utmost to meet the expectations of our stakeholders.

|

Financial Base

To demonstrate our agility during emergencies, it is important that we have a strong financial base. By continuing to grow steadily, our financial base has continued to grow to the point where it can be considered as one of our strengths.

In 2023, cash flows from operating activities were ¥71.6 billion, free cash flows were ¥50.1 billion, both reaching highest on record, and the balance of cash and cash equivalents was ¥229.6 billion. The current ratio has remained stable at over 200%, and the equity ratio is also solid at 61.1%.

These may appear to be ample levels; however, in order to realize "supporting the entire office of our customers" in which OTSUKA CORPORATION alone provides services of approximately 2,400 partners to our customers, it is important to secure cash in hand that is significantly

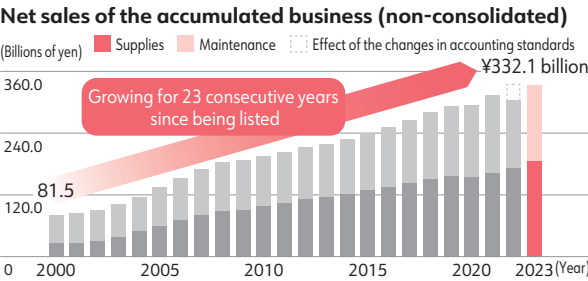
greater than that of other companies. We have maintained interest-bearing debt at a low level to ensure resilience to a financial crisis, and constantly monitor the optimization of our financial base and capital structure, and profitability of our capital.

	2010	2020	2023
Cash flows from operating activities (billions of yen)	17.8	32.4	71.6
Free cash flows (billions of yen)	10.3	23.7	50.1
Cash and cash equivalents (billions of yen)	37.9	178.9	229.6
Equity ratio (%)	50.7	58.8	61.1

●

"Accumulated business" that generates stable cash

Accumulated business, which consists of supplies (tanomail) and maintenance (tayoreru), is the foundation for stable growth of OTSUKA CORPORATION. Having regular interaction with customers through supply orders, continuous maintenance agreements, etc. helps us to maintain and expand our customer base. This business has shown stable growth for 23 consecutive years since the listing of our shares on the stock exchange in 2000, excluding the effect of the changes in accounting standards in 2022, contributing to the establishment and maintenance of our financial base.



Deliver what customers need when they need it
tanomail
Strengthening product delivery system
(Product Department & Logistics Promotion Department → P.30)

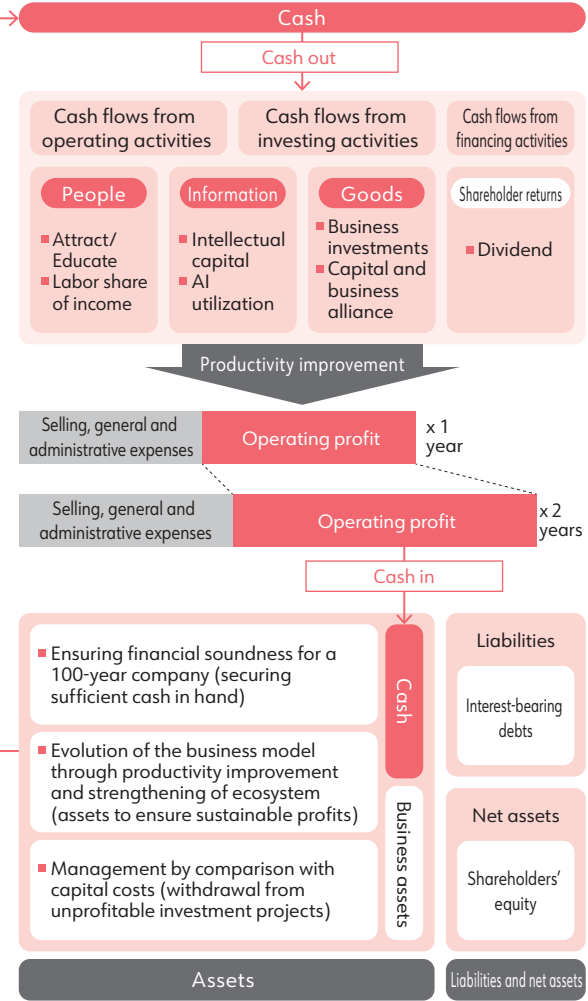


Promptly solve our customers' problems
tayoreru
Development of menus that lead to improvement of customer convenience
(Copilot → P.55)

02 Expanding Business Performance

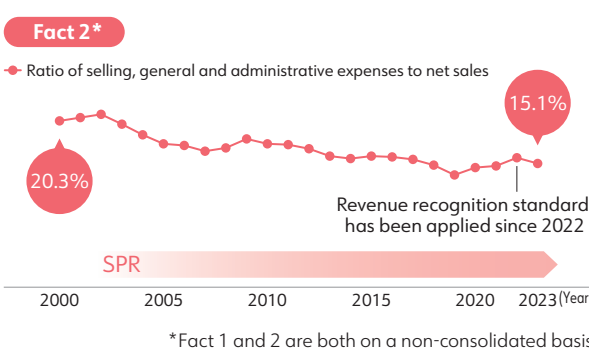
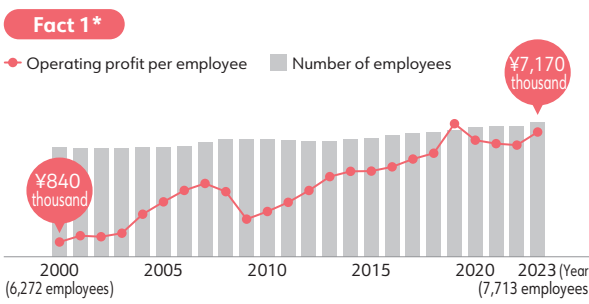
●OTSUKA CORPORATION’s cash management cycle

We aim to further strengthen our productivity, which is OTSUKA CORPORATION’ strength, through appropriate capital allocations, by implementing a management cycle of allocating the cash we have generated in our business activities to “investments for future growth,” “shareholder returns,” and “securing of financial soundness.”



✔ **Point**

We have achieved productivity improvements by attracting/educating necessary human resources and having a system in place that allows each of them to demonstrate their abilities. We will secure net sales and gross profit that exceed the increase in the number of employees (increase in selling, general and administrative expenses), which will lead to an increase in operating profit.



*Fact 1 and 2 are both on a non-consolidated basis



Coexistence with the Community Materiality ③

Talk between Sales Dept. GMs

Energize Japan with community-based operations

General Manager, Chuo Sales Dept. 1

Yoshinobu Takada

Senior Managing Officer and General Manager, Northern Kanto Sales Dept.

Hiroki Saito

For over 60 years since its foundation in 1961, OTSUKA CORPORATION has continued to place special emphasis on business activities that are based in the community, and “coexistence with the community” is one of our materiality issues. With 280 support offices of various sizes nationwide, the “XX Sales Department”* in each region is the community-based organization that plays the central role in our coexistence with the community. In this year’s Integrated Report, we have shone the spotlight on two of those 10 sales departments. The General Managers of these departments will tell us in their own words about what lies behind OTSUKA CORPORATION’s community-based operations strategy. (This dialogue took place in February 2024.) *XX = name of region

Chuo Sales Dept. 1

Chuo 1

Serving both Marunouchi (home to Japan’s leading companies) and Koto-ku (home to small, local businesses)

Northern Kanto Sales Dept.

Northern Kanto

Wide coverage centered on Saitama Prefecture, extending to Tochigi and Gunma Prefectures

Introduction

Different characteristics of the respective regions and approaches tailored to customers

Takada Mr. Saito, you were the General Manager of the Chuo 1 Sales Dept. (“Chuo 1”) for six years before being appointed General Manager of the Northern Kanto Sales Dept. (“Northern Kanto”) in July 2023. You are probably noticing the differences between the two departments right now, but how do you see the respective characteristics of the each region?

Saito The first thing I noticed after I started at Northern Kanto was how vast its sales territory is. A characteristic of Chuo 1 is its high customer density, with multiple customers

located in the same building. This means that, when visiting customers or moving between offices, walking or riding a bicycle is the norm. Fifteen minutes was usually plenty of time to get to a meeting. In contrast, in Northern Kanto, our customers are scattered around a vast territory, so it often takes an hour to get to them by car. Trying to bring Chuo 1’s way of doing things over to Northern Kanto would only lead to inefficiencies.

Takada So the same community-based operations means different things for Chuo 1 and Northern Kanto, doesn’t it?

02

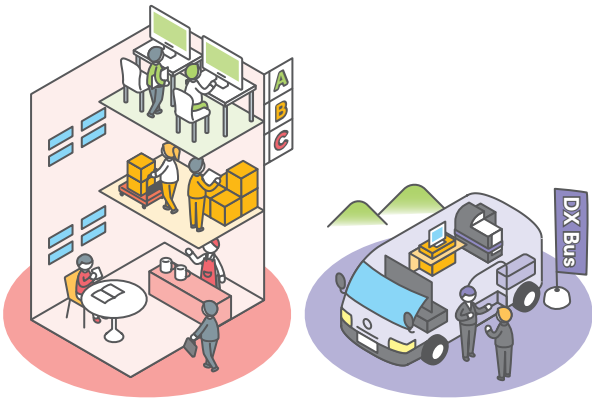
Expanding Business Performance | Coexistence with the Community

Materiality ⑧

Naturally, we also need to change our approaches to the customers. The ability to visit multiple customers in a short period of time does seem to make it easier for Chuo 1 to conduct sales activities. Even so, of all 10 sales departments, Northern Kanto actually did business with the most customers in 2023.

Saito I do feel that this is where there are major differences in regional characteristics. In Northern Kanto, we can often meet with top management even without an appointment, and customers have a relatively high tolerance for new sales calls. Also, our initiative to eliminate physical distances with the DX Bus, our mobile product exhibition, is leading to the expansion of the number of customer companies we do business with. On the other hand, at Chuo 1, customers seem to be more guarded and difficult, such as not being able to meet with people without an appointment.

Takada That's right. In particular, when it comes to meeting with new customers, we need an approach that is akin to pulling on fine threads, such as first holding some kind of



Issues and challenges [Northern Kanto]

Mindset toward independent personnel.

Drawing out their *ability to think* and contributing to customers and the community

Takada Looking toward the future of the market, what are your thoughts about steering Northern Kanto?

Saito I have been at Northern Kanto for seven months now.



event, where we can exchange business cards with prospective customers in the hope of securing a meeting. OTSUKA CORPORATION's head office building is located within Chuo 1's territory. We invite customers to the DX Office established at head office, and we also hold collaborative events with Cybozu (→P.31 Talk with a Partner), which is also located within the territory. It is important to implement measures that will secure contact points with customers, starting with offering them useful information.

Saito Another characteristic of Chuo 1 is that there are many customers with head office functions. Business negotiations for core systems are directly connected to the customers' business, and gaining thorough consensus with top management and information systems departments is imperative. The value of transactions also tends to be higher.

Takada That's right. In 2023, Chuo 1 had the highest net sales per company of all the sales departments, so compared with other regions, the value per project is higher. Of course, we do place emphasis on dealings with new customers, but in 2023, deepening our relationships with existing customers, particularly around responses to legislative changes such as the new invoice system, led to favorable results.

Saito While we have a common goal of closely assisting our customers by "supporting the entire office of our customers," it is interesting to see just how much the markets of the two departments differ. We have great authority and responsibility as the presidents of our respective regions, and I have been able to recognize anew the importance of customer support that is tailored to the region's characteristics.

At the moment, I am impressing strongly on the managers underneath me the need to think and act independently. OTSUKA CORPORATION has long had an organizational culture of banding together and working hard toward a common goal, and that drive has been one of our strengths. However, this is no longer a time when uniform proposals to customers will work. Northern Kanto covers a particularly wide territory, and each region has different circumstances. To draw out the different characteristics of each region, everybody needs to put themselves in the shoes of the customers in their assigned regions and act with independence.

Takada Instead of waiting for instructions, every person needs to think and act for themselves and be committed to producing results.

Saito OTSUKA CORPORATION has adopted a matrix-type sales organization that has two axes, namely the Regional Sales Departments (the frontlines) and product division

(Headquarters). There was a time when the product division (Headquarters) was the main axis of sales activities, but these days, the Regional Sales Departments (the frontlines) have taken the lead, and fundamentally, it is now a matter of "leaving regional matters to the regions." The answer lies in the frontlines. It is only natural that the General Managers of Regional Sales Department, as the "regional presidents," think about their regions, but it is also imperative for the managers to recognize that they are responsible for their assigned regions and to think about activities that best suit those regions. Watching the General Manager thinking, the managers will think for themselves, and the rank-and-file members beneath them will see the managers and think for themselves as well. Repeating that cycle and drawing out that *ability to think* in everybody will surely contribute to the customers and community of Northern Kanto.

Takada Northern Kanto's slogan for 2024 is "trust and peace of mind," isn't it?

Saito There are many solutions in this world, many of which OTSUKA CORPORATION offers. However, merely proposing what we want to sell to customers is not enough to build relationships of trust with them. I believe that trust

Issues and challenges [Chuo 1]

"Let's enjoy the work." Promoting well-being.

Growing further by mutual understanding what *enjoyment* means for each person

Takada I succeeded you as General Manager of Chuo 1 in July 2023. When I first took over, my priority was to make the most of the foundations that had been built up until then and follow the best practice, but I am now starting to put my own stamp on operations. For example, I have set as one of Chuo 1's values (Principles) "increasing happiness (= enjoyment) with well-being."

Saito That is a theme that also links to the materiality issue, "improvement of employee engagement," isn't it?

Takada Chuo 1 has kept up its strong performance for the past several years. However, as a General Manager, as I dealt with each individual member of the department, it seemed that, while members with good results were pushing ahead toward expanding sales, members that were not performing as well tended to stay on the sidelines, and I felt that Chuo 1 as a whole lacked a sense of unity. For us to grow even further, we need to bring renewed unity to the feelings of the department's members. To do that, I thought that the keyword that everybody, regardless of job or age, could aim toward would be, not *strong* or *win*, but *enjoy*.

Saito Both Chuo 1 and Northern Kanto are large departments of around 400 people, so if they can be a unified team, they can generate huge strength.

Takada "Let's enjoy the work" is something that President Otsuka used to say himself when he was General Manager of a sales department. It is work, after all, so there will be times that are hard. However, if *enjoyment* lies at the core,



is born when we are sincerely considerate of the other person and that consideration is conveyed to them. For that very reason, it is crucial to nurture the ability to think from the customer's perspective. Becoming a trusted partner and creating an environment in which our customers can concentrate on their main business. By doing that, I want us to be a sales department that customers will feel confident about working with for many years to come.

people will be able to grow spontaneously. At the time, I was a new-graduate employee, and I did not understand what those words meant to that extent. Now, I do understand what those words mean, so I make a point of saying them every day to help convince everybody.

Saito At the same time, diversity is also important. People's approach to their work and their work styles have become increasingly diverse.

Takada At Chuo 1, we have set up and started running a Well-being Promotion Committee. We are also promoting the use of AI Happiness, and we also launched a questionnaire to openly gather feedback from Chuo 1 overall. People are sharing, without being forced to at all, about things that other people did for them that made them happy and things that they have enjoyed, including in their private lives. Our 400 or so members are located in multiple office buildings, so it is sometimes difficult to put names to faces for all of them. I hope that this questionnaire will provide momentum for deeper interactions and for people to encourage each other. Understanding what *enjoyment* means for each other will, I hope, underpin future growth.

Saito Feeling that they are being of use to their customers will also lead to a feeling of *enjoyment*, don't you think?

Takada Yes, I do. And I think that it is found in OTSUKA CORPORATION's unique keyword, "support the entire office of our customers," which is literally to be of use to customers.

02

Expanding Business Performance | Coexistence with the Community

Materiality ③

Support the entire office

“Support the entire office of our customers” shows our trajectory of growth.
Supporting back offices and linking partners, we continue to evolve with the use of AI

Saito The “supporting the entire office of our customers” that OTSUKA CORPORATION aims for involves not short-term sales, but a gradual expansion of the range of transactions over one year, two years, and so on, until in 10 years’ time, we have somehow been entrusted with the customer’s entire office. Boasting a wide range of solution offerings and make use of OTSUKA CORPORATION’s strength of being able to offer solutions that are not confined to specific manufacturers, I believe that we will definitely be able to realize “supporting the entire office of our customers.”

Takada It is something that will be realized over long-running engagement with customers, isn’t it? “Supporting the entire office of our customers” is not an easy task, but if we look at the Japanese market, there are many examples of businesses achieving success by offering the convenience of one-stop services. Think package tours offered by travel agencies, and convenience stores. Compared with overseas markets, it may be a business model that will be more popular in Japan.

Saito At the same time, IT does require a certain level of specialist expertise, namely an understanding of the compatibility between solutions. You could say that this is an approach that is riding the trend of the times, when customers today are demanding greater accuracy how the solution proposals match their needs.

Takada Since its very foundation, OTSUKA CORPORATION has been increasing the range of solutions we offer as we responded meticulously to customers’ needs, and we have expanded our customer base in the process. “Supporting the entire office of our customers” is also the very trajectory along which OTSUKA CORPORATION has grown.

Saito That’s exactly right. OTSUKA CORPORATION has accumulated a variety of expertise in-house in that process of growth. And if we are to move these business activities even further forward, the efforts of our sales departments alone will not be enough. It will be important to coordinate with other departments within the company, while being conscious of our productivity as a company. For example, Northern Kanto produces its own monthly newsletter for customers. This is something that is only made possible with the cooperation of the promotion team that knows the region well, and the headquarters promotion team that has strong product knowledge.

Takada Back office support is a major strength of OTSUKA CORPORATION, isn’t it? In addition to stable supply capabilities (→P.30 Product Department & Logistics Promotion Department), we have a Call Center function (→P.27 Sales Support Center) that takes on sales support operations. Their support allows the sales teams to concentrate on business negotiations with customers.

Saito The Operation Administration Department (→P.29), which checks the activities of our sales team carefully, also plays an important role. In addition to checks-and-balances functions, namely checking contracts and the contents of orders received, this department is an important customer contact point for responding to customers’ various inquiries, and their prompt, careful response is essential to earning customers’ trust. When you think in those terms, you can see how that shift to the centralization, which draws on the flow of the Otsuka Strategy (→P.53), is continuing to evolve, even today.

Takada Our ecosystem consisting of 2,400 partner companies is also a lynchpin of our business model. To promote “supporting the entire office of our customers,” we need to make our collaborations with partners even deeper and larger. I hold study sessions and exchange sessions as a forum for exchanging information that transcends the boundary between inside and outside of the company. From my experiences at those sessions, I believe that creating an environment for expanding open forums is essential for the creation of innovation. For example, I believe that it would be extremely effective to build a mechanism in which we could invite our partners to make proposals for promoting “supporting the entire office of our customers,” perform test marketing of those proposals within Chuo 1’s sales territory, and link the outcomes of that test marketing to the development of new products.

Saito Certainly, Chuo 1 does have many customers with high IT literacy and sensitivity, so it is well suited to test marketing. In this way, having each sales department leverage their collaborations with partners in a way that suits their respective characteristics will also likely be key to the promotion of “supporting the entire office of our customers.”

Takada In terms of relationships with partners, some people have expressed concerns that we will be bypassed as intermediaries, particularly as the cloud business progresses. However, our partners also need business partners in each region for the sake of their own growth. In that respect, the functions that OTSUKA CORPORATION provides, such as matching with customers’ needs, post-installation support, and a pro-active sales team, are of major benefit to our partners as well.

Saito That’s true. The networks and expertise we have built up over the years are our assets. I am convinced that promoting those collaborations without wavering will be the path to success.

Takada The main issue is employee education, really, isn’t it? To “support the entire office of our customers,” our people need to become specialists in multiple fields, and some kind of breakthrough is needed in that area. I believe

that AI could become a major breakthrough in terms of our efforts to improve the efficiency and proposal capabilities of our sales teams.

Saito I agree. In 2023, the number of customers doing business with OTSUKA CORPORATION reached 295,000 companies, and each of those customers has different challenges. If AI’s objective analysis, which is not colored by human biases, can provide the impetus for new discoveries in how to conduct sales activities, we can expect sales opportunities to expand even further.

Takada Proposal capabilities, which are based on the experiences that have been accumulated through sales activities, will become our strength, whether the proposal

succeeds or fails. The accumulation of experiences gained through our own trial and error is unique, unparalleled organizational knowledge, and it is not something that our competitors would be able to emulate overnight. If AI can analyze our vast organizational knowledge, including SPR (→P.53) and become a wellspring of knowledge that surpasses the limitations of the human brain, it will be possible to make proposals to customers at several times the speed that we have achieved to date. Under current circumstances, the final finishing touches to proposals need to be made by humans, but going forward, we should continue to put AI to maximum use.

OTSUKA CORPORATION’s community-based operations

Not only digitally, but also physically—
To become an infrastructure-providing company that is essential to society by solving social issues through our business

Saito On the other hand, no matter how much digital technologies, AI being the representative example, advance, our sales activities will never become a digital-only undertaking. Many aspects of our customers’ office environments cannot be understood without actually visiting those offices, listening to what their people have to say, and seeing them for ourselves. As they say, a picture is worth a thousand words. Actual visits are a crucial customer contact point for learning how those environments operate, that is, what kind of people work there and how they work.

Takada While it is important to improve the efficiency of sales, if we go so far as to streamline our communications with customers, we will be getting our priorities backward. That kind of streamlining is not going to build relationships of trust with our customers, is it?

Saito It may be an old-fashioned way of doing things, but the first step toward gaining a customer’s trust is for we employees to answer telephone calls received from customers with, “Yes, this is OTSUKA CORPORATION.” We need to have a mindset that the customer has a problem and that is why they have taken the trouble to call us.

Takada The speed of that response is important and one of our unparalleled strengths, I believe. The customer does not always have a firm picture of exactly what their problem entails. Even in that kind of uncertain, difficult state, OTSUKA CORPORATION is able to dispatch an engineer on site immediately to respond.

Saito There are also cases where a remote response may be more appropriate. For example, while we are not able to assign world-leading engineers to multiple sales departments, if we have one such engineer at head office, we can provide a high level of remote support from there. It is important to get close to our customers in the best way that suits the customer’s circumstances.

Takada It is not a matter of choosing between digital and physical. It is both digital *and* physical. This is where the value of community-based operations comes in, and I also think it has a major benefit for the customer.

Saito 2024 will be a milestone year for the OTSUKA CORPORATION Group as it exceeds its planned net sales of ¥1 trillion and enters a new stage. As we evolved our community-based operations, we became a company that has a large impact both economically and socially. We are also a company with potential to keep on growing. As an enterprise that will place even more emphasis on solutions to social issues through business, going forward, we must demonstrate leadership within our ecosystem. I believe that this is what will make the sustainable growth of OTSUKA CORPORATION possible.

Takada It is my hope that OTSUKA CORPORATION will become an infrastructure that is essential to society, working in the background to support Japan’s many corporate activities. Within the company, we sometimes use the phrase “Electricity, gas, water, OTSUKA CORPORATION.” It is that kind of presence that I want to aim to become, namely one is not usually noticed but that is indispensable to our customers’ business activities. And I believe that this is the kind of role that only OTSUKA CORPORATION can play.

Saito It truly is the realization of our Mission Statement by “supporting the entire office of our customers.”

Takada We do face some issues, and it may not be something we can achieve straightaway. Even so, if that conviction is passed onto the next generation and we can move little by little toward its realization, I believe that it would be wonderful and something to be proud of.

03 Investment for Growth (Developing Human Resources)



General Manager,
Human Resources
Development
Department

Toshiaki Kohshi

Three materiality issues related to *people*

- P.47 Improvement of Employee Engagement
- P.49 Promotion of Diversity, Equity, and Inclusion
- P.51 Human Resource Development

Human resources are the key to growth

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 and developed into our Mission Statement (→ P.09), in which one of its goals is to become a corporate group that encourages employee growth and self-realization.

It is telling that we have selected three materiality issues related to “people,” because human resources are the key to OTSUKA CORPORATION’s sustainable growth. Combining value propositions by many partners to solve issues that are unique to each customer—to realize “support the entire office of our customers” at the center of our value creation model, it is important to maximize employees’ abilities by combining their expertise and diversity.

Characters that we value

The way we work and the way we think about work itself have dramatically changed since 10 years ago, partly because society embraced teleworking as a result of COVID-19. The quality and scope of what AI can do has continued to increase and expand. Given the possibility of AI and robots replacing humans in operations, we will see increasingly significant changes over the next decade.

In these times of turbulent change, it is all the more important to secure human resources who can think and act autonomously in response to such changes. We cannot expect to grow sustainably unless we increase productivity by making full use of technology and create unprecedented new added value from the customers’ viewpoint. To put it bluntly, as the company seeks to grow, people who simply work on the same job in the same way as before are scarcely contributing to growth. I want them to strive for growth to build their own careers. I believe that this will lead to the growth of our customers and the improvement of OTSUKA CORPORATION’s corporate value.

Basic policies on human resources strategies

To develop flexible people, we are working to create an environment in which we can firmly support their development. In addition to minimum mandatory training, we offer leadership development programs, reskilling training, and optional training inviting experts in various fields as lecturers, as opportunities for employees to learn on their own initiative.

We have been working on career development support including measures to mobilize human resources through such measures as the self-reporting system and the in-house job posting system. We also have an extensive system to support employees who wish to acquire

History of our human resource strategies aiming to “support the entire office of our customers”

	Improvement of employee engagement	Promotion of diversity, equity, and inclusion	Human resource development
Up to 2021	<div>Structure and system</div> <ul style="list-style-type: none"> Employee awareness survey → P.47 Workplace improvement round-table conferences → P.47 <div>Career development support → P.47</div> <ul style="list-style-type: none"> Self-reporting system In-house job posting system Sales grade system 360-degree feedback Action plan (MBO) <div>Improvement of environment</div> <ul style="list-style-type: none"> Milestone leave Premium day Renovation (sites) 	<div>Work-style</div> <ul style="list-style-type: none"> Shorter working hour system Extension of retirement age (62 years old) Reemployment after retirement (65 years old) Flextime system Side job system Health management system <div>Diversity</div> <ul style="list-style-type: none"> Women’s Hotline Eruboshi certification (highest rating) 	<div>Self-improvement</div> <ul style="list-style-type: none"> Training by division/job category → P.51 Training by job level/company-wide training → P.51 Knowledge sharing (Maru-navi) Optional training Support for qualification acquisition → P.51 OTSUKA Leader’s College and OTSUKA Management College → P.52 <div>Assignment</div> <ul style="list-style-type: none"> Recruitment by division/job category Talent management system
2022	<div>Remuneration</div> <ul style="list-style-type: none"> Improve the labor share of income → P.48 	<div>Recruitment</div> <ul style="list-style-type: none"> Recruitment using DX Highly specialized human resources → P.50 	<div>Self-improvement</div> <ul style="list-style-type: none"> Reskilling → P.52
2023	<div>Management</div> <ul style="list-style-type: none"> AI Happiness → P.48 Manager promotion system → P.48 	<div>Work-style</div> <ul style="list-style-type: none"> OWL’s → P.49 Kurumin certification 	<div>Expertise</div> <ul style="list-style-type: none"> Establishment of AI Lab Support for advanced AI qualification acquisition → P.51
2024	<div>Improvement of environment</div> <ul style="list-style-type: none"> Renovation (Head Office) → P.47 <div>Structure and system</div> <ul style="list-style-type: none"> Introduction of engagement survey tool → P.47 	<div>Diversity</div> <ul style="list-style-type: none"> Diversity project → P.49 <div>Work-style</div> <ul style="list-style-type: none"> Certified KENKO Investment for Health Outstanding Organization → P.66 	<div>Expertise</div> <ul style="list-style-type: none"> AI ideathon → P.52
KPIs	<ul style="list-style-type: none"> Engagement survey → P.47 Average annual salary → P.48 	<ul style="list-style-type: none"> Percentage of female managers → P.49 Rate of employees taking childcare leave → P.49 	<ul style="list-style-type: none"> Training costs per regular employee → P.51 Number of employees who obtained AI-related qualification → P.51

qualifications as a means for self-improvement. We will continue to support the self-realization of our employees in order to help them grow not only as business people but also as human beings. To achieve this, we need to strengthen the bond between employees and the company to increase engagement more than ever.

OTSUKA CORPORATION has conducted an employee awareness survey every year since 2007. “Are employees able to realize the Mission Statement?” “Are we providing employees with an environment where they can realize the Mission Statement?” While working to visualize answers to these questions, we have used employee feedback to clarify priority issues and formulate and implement solutions.

Initiatives for materiality

As for “Improvement of employee engagement,” one of our materiality issues, we are reviewing and improving our wage system, taking into account the results of the employee awareness survey. We continue to enhance monetary remuneration in 2024, including a basic salary increase in response to rising prices. The number of users of AI Happiness, which aims to improve motivation of employees by stimulating communication, is gradually increasing. In 2024, we switched from the employee awareness survey we had used until then, to a third-party engagement survey tool. By making engagement scores

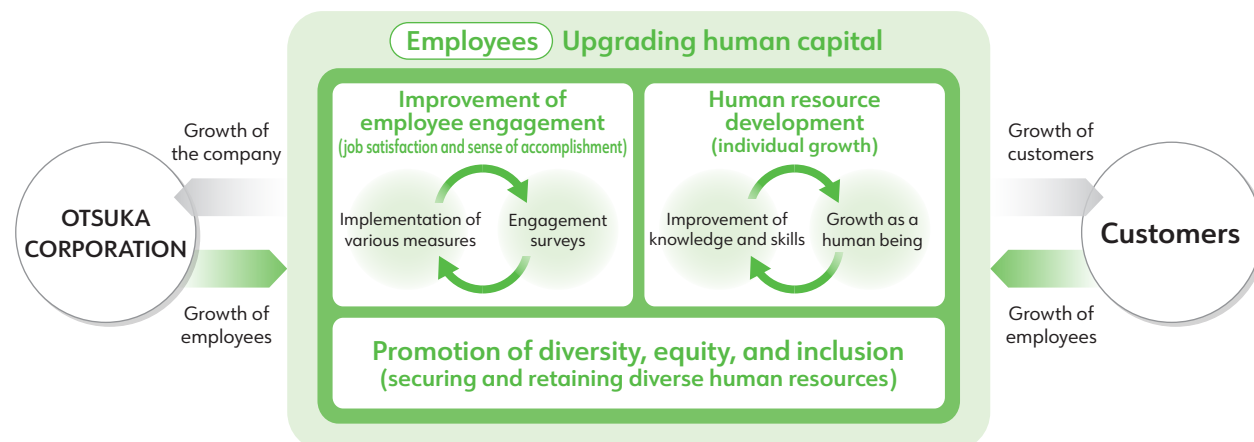
more visible than before, we have started preparing for the further enhancement of our engagement measures.

Regarding “Human resource development,” we are working to continually strengthen various types of training (→ P.51 Training costs per regular employee). In addition, we are proceeding with measures to appropriately manage the human resource portfolio by defining the skills and knowledge required by job level and breaking them down to more detailed categories while assessing them.

We are particularly committed to “Promotion of diversity, equity, and inclusion.” In 2023, in order to balance work comfort and job satisfaction, we launched OWL’s, a welfare program unique to OTSUKA CORPORATION (→ P.49). A project was launched in 2024 to accelerate its activities. We have had various systems such as flextime system before, but we will further strengthen these measures.

While we are implementing various initiatives, we face some challenges. For example, we need to reform the mindset of senior employees so that they can come up with new ideas and break free from prejudices arising from their successful experiences.

In this way, we hope to steadily draw out the potential of all our employees and build a relationship where employees and the organization choose each other, to realize “support the entire office of our customers,” thereby continuing to aim for the embodiment of our Mission Statement.



03 Investment for Growth (Developing Human Resources)

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

Structure and system

We continuously monitor employee engagement. We have conducted employee awareness surveys every year since 2007, and reflected the results of the survey in various measures to constantly maintain and improve employee engagement.

In 2024, we introduced an engagement survey tool, switching from the employee awareness survey we had used. The new tool enables us to survey new factors which were not sufficiently visible or covered in the previous system, and we can now compare ourselves with industry average and according to company size. As a result of making the questionnaires less arduous, the response rate was approximately 90%, exceeding the previous surveys. We aim to visualize the state of mind which facilitates decision-making and actions, using knowledge we have accumulated in the past surveys and information obtained

achieve this goal. We are continuing our initiatives to improve the labor share of income, which was initiated in 2022. Furthermore, we are preparing to upgrade our measures by utilizing the engagement survey tool that was introduced in 2024.

from new surveys. By upgrading measures to improve engagement, we will realize a relationship that allows employees and OTSUKA CORPORATION to grow together in a sustainable manner.

Employee awareness survey	Employee awareness surveys were conducted every year* regarding penetration of the Mission Statement, satisfaction with work environment and compliance status, etc. *2007–2023
Engagement survey	Introduced a new survey tool in 2024. Preparation is underway to upgrade measures through analysis that is more multifaceted than in the past.
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.

Renovation (Head Office)

In November 2023, renovations were made on some floors in the Head Office building of OTSUKA CORPORATION (Chiyoda-ku, Tokyo). In response to changes in business communication and work styles, the layout has been arranged so that employees can quickly gather to exchange opinions, making it easier to work on project-based operations. The office is now adorned with plants with an open and relaxing atmosphere, and the improvement in the workplace has also led to enhanced employee motivation. We also plan to carry out renovations on other floors sequentially.

- Consolidated promotion-related departments on the same floor
- Introduced the free address system
- Established multiple communication spaces, compartments with internet connection, and individual spaces



Career development support

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

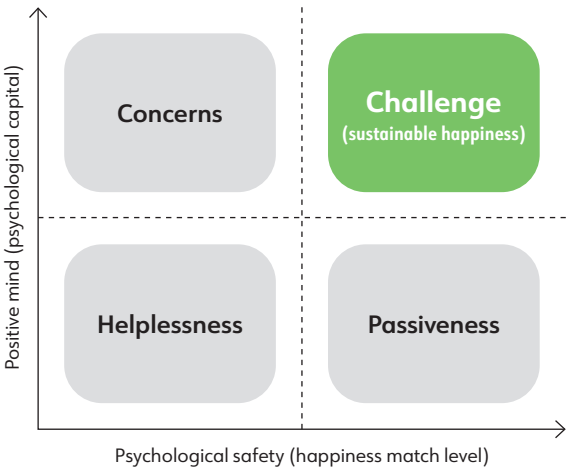
Career development support	<ul style="list-style-type: none">Self-reporting system (transfer to the department that employees desire)In-house job posting system (measures to internally mobilize personnel)Sales grade system (career formation)
Self-development support	Provide support for qualification 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

Management reform

Initiatives for well-being (AI Happiness)

For taking on the challenge of new value creation, psychological safety and a positive mind are important. OTSUKA CORPORATION has utilized AI Happiness to strengthen our initiatives to visualize how happy each of the employees are.

Plotting and visualizing corporate culture



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 mind. 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.

Manager promotion system

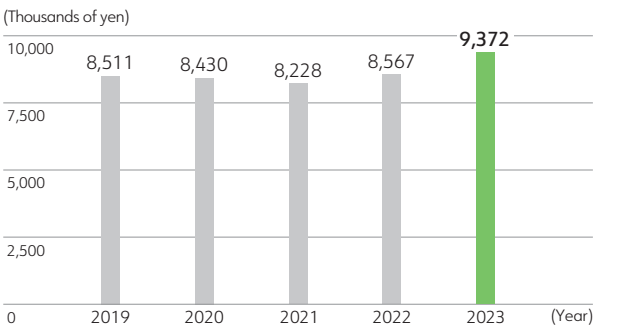
We have introduced a manager promotion system to comprehensively judge managers' ability for supporting their subordinates' growth, team building, and communication. In July 2023, 33 new sales managers were born through this system. We also plan to apply the promotion system to corporate staff managers from July 2024, and are currently conducting training for this purpose. In this way, we are promoting initiatives to foster a healthier management 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. To protect our employees from rising prices, we implemented a first major basic salary increase in July 2022, which resulted in an average annual salary (non-consolidated) of ¥9.37 million in 2023, an increase of 9.4% from the previous year. (Additional basic salary increase was implemented in April 2024)

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.

Average annual salary (non-consolidated)



			2022				2023				2024			
			1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
1	Incentives	Sales personnel	Increase (linked to performance)											
		Technical personnel	Increase (linked to performance)											
2	Basic salary	Non-management position	Increase in amount				Addition							
		Management position					Increase in amount				Addition			
		All employees					Increase in basic salary				Addition			
3	Those eligible for a salary increase	All employees					Increase				Addition			

03 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.

Initiatives to promote diversity

Diversity project

In January 2024, we launched a project that aims to promote diversity by incorporating employee feedback.

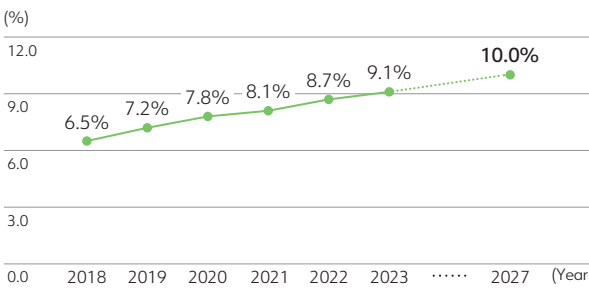
Details of project initiatives

Changes to HR systems (from April 2024)	Extend shorter working hour period Currently: until the end of the child’s third year of elementary school After change: until the child graduates from elementary school
	Apply flextime system to sales personnel Note: Start with limited period and personnel
Details under consideration	Encourage employees raising children to concurrently adopt teleworking
	Phase out meetings and training sessions that are inconvenient for employees with shorter working hours
	Encourage managers to work in a manner that is not bound by regular hours
	Develop leaders

While we have developed various measures to support a balance between job satisfaction and work comfort so far, we will redouble our initiatives to promote diversity. The project is composed of 40 male and female employees of various job categories and job levels including two Directors. Recommendations will be made to the Board of Directors based on the discussion within the project.

Percentage of female managers

We 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 Leader’s College and Otsuka Management College (→P.52), and enhancing systems.



Rate of employees taking childcare leave

We aim to achieve a 100% acquisition rate for both male and female employees by 2027. In particular, 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	2023	2027
Male employees	15.9%	39.3%	46.3%	100.0%
Female employees	100.0%	100.0%	100.0%	100.0%

OWL’s, a welfare program tailored to the life plans of our employees

In April 2023, we launched OWL’s (Otsuka Work Life Support), a support program for balancing work and home. Focus is on three categories that are likely to be barriers to employees in their continuation of work: trying to conceive, childcare, and nursing care. We will provide an allowance of ¥20,000 per month for external services used in each category, according to employees’ life stages. In the first year (April–December 2023), a cumulative total of 137 employees used the program in 521 cases company-wide.

OWL’s was conceived when the idea of a satellite office with a kids’ space won the gold award in the business plan

contest in the Next-Generation Leader College (→P.52) in 2021. We also conducted a company-wide survey using a questionnaire on balancing work and home, and the inputs of approximately 1,500 employees have been incorporated in planning OWL’s.

All support measures are available to everyone, regardless of gender. Especially in Japan, there remains a strong sense of gender role that housework is women’s



Masami Suzuki
HR Promotion Section,
Human Resources
Development
Department

work. We rolled out internal public relations activities that do not use gender-oriented language in addition to offering support that is gender-free, with a strong notion that trying to conceive, childcare, and nursing care should not be perceived as women’s issues. These support measures also apply to the spouses of employees. As all these issues have a material impact on employees’ families, we strive to make sure family members are informed about these measures.

There was a huge response within the company to introducing OWL’s, with comments such as “it gave me a chance to use external services,” and “I understood it as a message from the company to keep working.” At the same time, we have received a variety of requests. We will continue to upgrade our support measures.

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

In October 2022, we hired graduates from the Indian Institutes of Technology, a university known worldwide for producing outstanding human resources, as AI engineers and data scientists. Additional recruitment was conducted in October 2023, and a total of seven graduates have been hired. We are strengthening our AI technology capabilities including studying scientific English papers, developing algorithms, and conducting research to advance the solutions we provide. At the same time, we are working to deepen mutual understanding of different lifestyles and

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



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

We protect 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.

We are 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

CASE Shinjuku satellite office

Our satellite office in Shinjuku is completely barrier-free, and staffed with a job coach. We are working to develop an environment where employees with disabilities and chronic disease can work comfortably. Based on regular weekly interviews with employees, we make improvements to facilitate their performance as a way to continue to support special needs of employees who want

to continue working. We will open a similar satellite office in Kansai area to expand venues to support employee growth and self-fulfillment. This serves not only as a means to fulfill our corporate social responsibility, but also to generate new perspectives and ideas through nurturing diversity within the company.

03 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

Company-wide training system

A wide range of training programs are systematically prepared to help each employee acquire knowledge and skills they need.

Training programs

Training by division	Division A	Division B	Division C
Training by job category	Sales	Technical	Corporate	
Training by job level	OTSUKA Leader's College and OTSUKA Management College		Officers, managers, mid-level employees, young employees, new hires, and prospective employees	
Company-wide training	Mandatory training		Optional training	

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 14,000 employees have acquired qualifications as of December 31, 2023. In particular, 904 and 42 employees have acquired the AI-related G-Certificate and E-Certificate*, respectively (consolidated basis). In 2024, we invited interested employees to compete in an AI ideathon to come up with business ideas using AI (40 teams of 125 employees applied). The ideas that were given are being studied for effective utilization in our operations.

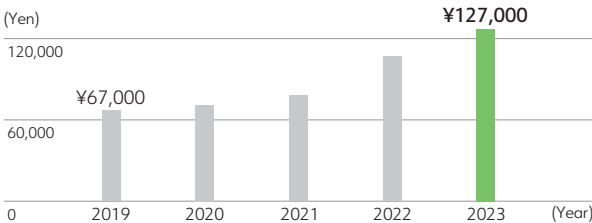
for our employees to grow not only as a businessperson, but also as an individual.

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

Training costs per regular employee

Training costs per regular employee in 2023 was ¥127,000 (+17.9% compared to last year), having increased significantly year-on-year for two consecutive years.

Five-year change in training costs per regular employee



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 and E-Certificate	Business Accounting Test and the Official Business Skill Test in Bookkeeping

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

CASE Support for acquisition of advanced AI certificates

I have been in Sales for 19 years since I joined the company. The E-Certificate is a qualification for engineers, technical in nature, as it tests the ability to implement deep learning in actual operations. However, I am interested in statistics and I thought it was a must to acquire knowledge about AI. I decided to acquire this certificate upon viewing a company notice. I also used AVILEN's curriculum for my study. I continued studying with my peers, encouraging each other. After obtaining the certification, I now have a feel for what AI can do, and I use the knowledge in my proposals to customers. I will continue to develop myself to realize the "support of the entire office of our customers" and self-fulfillment.



Atsushi Azuma
tanomail
West Japan Group

CASE AI ideathon

We hear the word "AI," but what exactly can it do? It is difficult to think alone, but it may be easier with colleagues. This is why the four of us, including two G-Certificate holders, teamed up. We have chosen the topic *supporting* careers, a familiar issue that everybody has pondered at least once. We discussed this topic on a weekly basis and put it into the form of a presentation. Thinking about the use of AI of all things, beyond the boundaries of our normal work with members in different job categories—it was a challenge to put ourselves in a different environment than usual, but we had an enjoyable experience which more than made up for such challenge.



From left to right:
Maho Tsuno and Ayumi Tsukamoto, Regional Promotion Department
Suzuka Furukawa and Koshi Kawaguchi, Chuo Sales Dept.1

Reskilling

We give employees reskilling opportunities by using online learning platform tools. Employees can specify their areas of interest on the platform to receive recommendations of related courses. This will encourage efficient learning tailored to each employee, which will lead to improved operational skills (more than 1,600 employees are learning on a voluntary basis as of December 31, 2023. Average annual learning hours = 18 hours/person).

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 officers	15	Integration of knowledge and experience
	Leader College	Development of next-generation General Managers	89	New practice opportunities
OTSUKA Management College	Next-Generation Leader College	Development of next-generation Managers	316	Acquisition of knowledge
	Leadership Development Program*1	Development of next-generation Managers	267	Fostering a foundation

*1 Newly established in 2022 *2 Cumulative total number of active students and graduates (as of March 31, 2024)

First generation graduate from Next-Generation Leader College.

My proposal was developed into a company-wide welfare program.

I attended the Next-Generation Leader College for two years starting from in 2019. The business frameworks I learned there is valid in actual work as I reflect them in my presentations to customers. In the new business plan contest held to sum up the program, I proposed a satellite office with a kids' space, and won the gold award. I am delighted that this led to the birth of OWL's

(→ P.49). I want the company to be a place where women can balance work and childcare, and continue to work happily with a smile. I myself am working every day to make it happen.



Keiko Iinuma
MST Special Sales
Department, Regional
Department

04 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

●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 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.

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

●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.

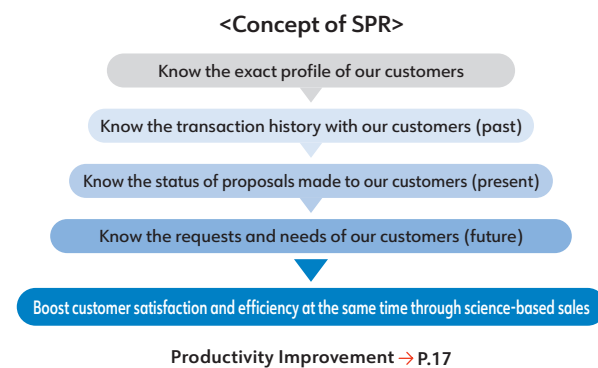
Centralization entailed reorganizing the operational tasks that had been handled separately at each individual site and setting up new units in the head office to take sole responsibility for these tasks. The sites were able to focus on the sales activities that were their essential role and productivity 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.

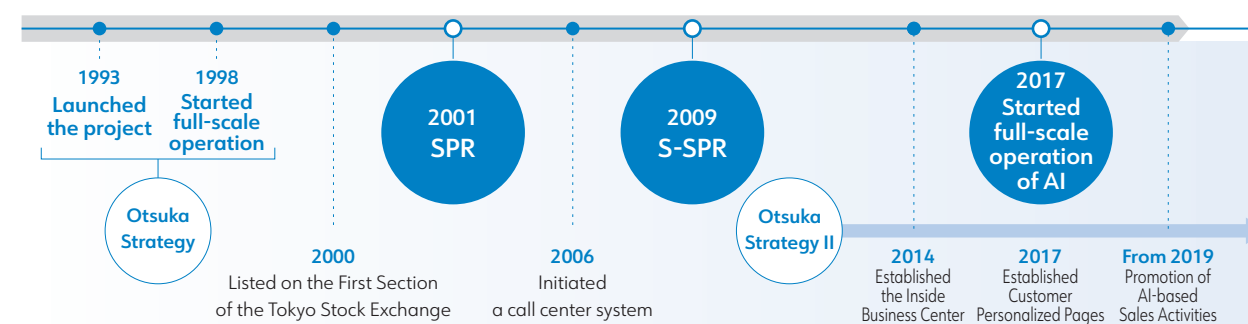
●SPR (Sales Process Re-engineering)

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.



Development of OTSUKA big data

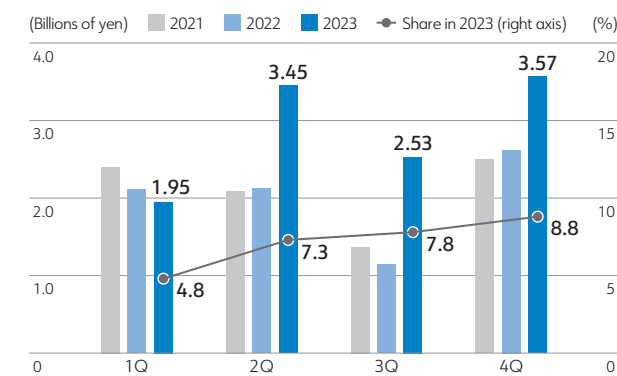


●Support of AI-based sales activities

We continue to utilize big data to support AI-based sales activities. AI does not belong to any specific department and is able to make unbiased recommendations. It is capable of surveying the entire range of products and services OTSUKA CORPORATION can offer to provide the best recommendations for customers. Even if AI recommends a product or service in which a sales representative does not specialize, the recommendation can give him/her a new insight and an opportunity to gain knowledge.

In 2023, the amount of orders for products and services recommended by AI in departments that utilize AI recommendation increased year on year in 2Q and thereafter, and its annual total stood at ¥11.5 billion. In departments that utilize AI recommendation, the share of AI-recommended products and services in orders is growing. We will further promote the utilization of AI in sales activities.

Amount of orders for AI-recommended products and services (2021-2023) and their shares in orders* (2023)



*Share in departments that utilize AI recommendation (excluding recurring business such as supplies and maintenance)

●Promotion of capital and business alliances to strengthen AI solutions

As part of our effort to strengthen our business in the medium- to long-term, we promote capital and business alliances with companies that offer AI solutions. Promotion of AI use in small- and medium-sized enterprises (SMEs) is said to be still insufficient. We take these capital and business alliances as excellent opportunities to further strengthen the relationships between AI technologies of these companies and OTSUKA CORPORATION, which has strengths in supporting SMEs.

OTSUKA CORPORATION had started operating and verifying these companies' AI solutions before the alliance agreements were concluded. By using these solutions in-house, we have gained know-how. We offer

the know-how as solutions accessible to SME customers and contribute to solving management issues they have.

Proposal of know-how as solutions that are accessible to SME customers



Contributing to solving management issues the customers have

When alliance concluded	Alliance partner	Amount invested	Characteristics
April 2022	dotData	\$21.6 million	dotData is a leading company in AI automation solutions that excels in automated feature selection. Utilizing its know-how in utilizing dotData, OTSUKA CORPORATION started to offer subscription models in 2023. OTSUKA CORPORATION has featured dotData solutions in its integrated DX package as well.
June 2023	AVILEN	¥1,900 million	AVILEN offers a wide variety of solutions, including those to enhance companies' ability to use technologies and those to solve issues with AI-equipped software. AVILEN got listed in the Growth Market of the Tokyo Stock Exchange in September 2023. OTSUKA CORPORATION also uses AVILEN's solutions for AI talent development.
November 2023	Happiness Planet	¥340 million	Happiness Planet offers software services aimed at increasing happiness of people and organizations. From the establishment of Happiness Planet, some of OTSUKA CORPORATION's sales departments started an in-house pilot program to test the software of Happiness Planet. OTSUKA CORPORATION is still expanding the use of the software and utilizing it in management.

04 Data Utilization (Enhancing the Ability to Respond to Customers)

Initiatives for Generative AI

Guidelines for generative AI

ChatGPT, which was released by OpenAI in November 2022, has drawn the attention of people across a wide range of generations to generative AI. People have already started using it in the business field, and it is expected to bring about significant transformations.

However, depending on how entered or generated data are used, generative AI can pose various risks, including violation of laws and regulations and infringement of rights. Moreover, the generated data are not necessarily accurate. It is easy and convenient, and that is the reason why the AI literacy of the people that handle it is important. In order to make proper and safe use of generative AI, OTSUKA CORPORATION has formulated the Guidelines for the Use of Generative AI and disclosed them to all of its workers.

Copilot for Microsoft 365

The Office applications that we use daily, such as Word, Excel, and PowerPoint. Copilot for Microsoft 365, Microsoft’s generative AI, has been developed by integrating large language models based on ChatGPT into these applications to increase work efficiency.

August 2023	Start of the pre-launch verification project in Japan
November 2023	Release of the Copilot for Microsoft 365 Comprehensive Support Service (for a minimum of 300 users)
February 2024	Released a new plan with no minimum user requirement
March 2024	On-line training in an e-learning and workshop format

In August 2023, when the product was yet to be released, OTSUKA CORPORATION has joined several other companies to participate in the pre-launch verification project in Japan and is still continuing to perform use case testing in a team of 300 members. On the basis of the verification results and in cooperation with Microsoft in Japan and the US, we released in November 2023 the Copilot for Microsoft 365 Comprehensive Support Service, our original service. As a preliminary, we initially targeted and proposed the product to large clients with high IT literacy by offering a service plan that required a minimum of 300 users. Subsequently, in February 2024, we discontinued the minimum user requirement and made new plans available that are accessible to SMEs as well.

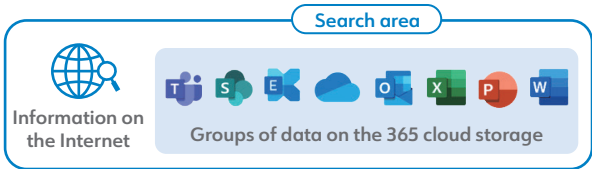
A significant feature of Copilot for Microsoft 365 is that, in addition to information on the Internet, it can also search data prepared with Office applications which are stored in

In addition, OTSUKA CORPORATION has provided the ChatGPT Business Training, an e-learning program mandatory for all of its workers, so that they can acquire business skills, including basic knowledge on generative AI, how to use it, and what to keep in mind when using it. In its training, training content of AVILEN, with which OTSUKA CORPORATION concluded a capital and business alliance agreement in June 2023, is used, which was created and customized for OTSUKA CORPORATION.*

OTSUKA CORPORATION will continue to enhance its employees’ AI literacy, actively engage in trials and experiments with generative AI, and utilize that experience to further improve its services.

*At the 20th Japan e-Learning Awards Ceremony (held in October 2023 by the Japan Online Training & Education Industry Association), the ChatGPT Business Training, provided by AVILEN, was awarded the Special Award for the Generative AI Division.

the 365 cloud storage. In order to make the most of this feature, it is important for companies to establish rules regarding where to store data and take security measures. In addition, training on prompts (execution commands for 365) and other matters is necessary to make full use of Copilot for Microsoft 365. Creating an environment that enables efficient use of the product is not easy.



In this regard, OTSUKA CORPORATION has a specialized team with solid expertise in building and managing network environments and has been continuing to accumulate know-how on the use of product through use case testing.

In March 2024, for customers who wish to start small, we have also launched a plan to support partial introduction of the product (on-line training in an e-learning and workshop format). We will continue to strive to strengthen and promote our efforts to contribute to AI utilization and digital transformation (DX) at SMEs using Office applications, which are systems customers use every day.

Research and verification of large language models

Traditional AI, including RPA and machine learning, has been used to automate routine tasks, forecast demand, etc. primarily for the purpose of improving operational efficiency and productivity. However, with the advent of large language models (LLMs), the areas of AI application has been expanding. LLMs, which are able to learn from a vast amount of text data, can understand and generate natural language used by humans. One of its features is that they can perform tasks based on text commands and are thus easy for anyone to use.

Currently, OTSUKA CORPORATION is working on research and verification of LLMs specialized in the Japanese language in collaboration with multiple other companies. While storing data on the cloud and storing data on the premises have advantages and disadvantages of their own, many customers feel uneasy about storing confidential data on the cloud. With that in mind, we are focused particularly on research and verification of LLMs with high security features by setting up the environment on customers’ own servers. Regarding the cost issues of on-premises solutions, about which customers might be concerned, we are aiming to realize a price range that is accessible for SMEs by developing small and energy-efficient

models. By combining cloud and on-premises solutions, it is possible to use different solutions depending on the type of work. For example, coordination with important internal systems that handle confidential information can be performed on the on-premises servers, which have a lower risk of data leakage, while regular tasks can be performed using Copilot (→P.55).

To improve the accuracy of LLMs, selection of tuning methods and preparation of data are important. We are deepening our knowledge by repeating the process of testing various methods to verify which models are effective in improving the accuracy.

We plan to roll out and apply this knowledge to various internal systems as well. We will work to enhance our customer support by various measures, including further improving our well-regarded contact center functions (→P.08). In January 2024, we launched our original chatbot service featuring LLMs. Currently, its main function is response generation based on internal documents. However, we are conducting further research with the aim of enhancing customers’ convenience by improving text generation and summarization functions.



Every Day Knowledge

“Every Day Knowledge” is a mail magazine that we created to share successful cases in which we have helped customers, i.e., knowledge. Since its start in 2012, the magazine has been distributed approximately 2,500 times, primarily to technical staff. It is now delivered to over 4,500 group employees every day.

It is the technical staff that work most closely with customers, whose job ranges from system implementation to post-implementation support. We are able to identify problems that even the customers themselves do not realize because we can delve deeply into their work. The position of technical staff allows you to directly experience reactions of delighted customers if you can provide appropriate advice and support to solve their problems. How can we more efficiently share the knowledge necessary to be of help to and relied upon by customers? How can we transcend organizational boundaries and feel more united to perform activities to be close to customers? “Every Day Knowledge” was an answer to these questions.

We are continuing to distribute one piece of information per day, focusing not on information that would directly lead

to better business performance, such as successful order acquisition stories, but primarily on how we can be of help to our customers. We seek clues to solutions to our customers’ problems by sharing as knowledge our individual experiences, as well as the considerations and strategies we employ when interacting with them. If we can make our customers happy as a result of these efforts, it will enhance our job satisfaction, and we will find our work enjoyable. We hope that interacting with customers with such a positive attitude will create a virtuous cycle that will lead to long and deep relationships with them.



Ikue Ainoya
Education Promotion
Section, Support
Department



05 Forging New Relationships with Customers

The core of the value creation cycle is to forge new relationships with customers. In the Medium- to Long-term Management Policy, which we announced in July 2023, we set two KPIs related to relationships with customers (→ P.35 KPIs and 2023 results).

Once customers start doing business with us, our support of the entire office of our customers will gradually progress in our relationships with them. Our goal is to stay close to our customers, keep thinking about their needs more than anyone else, and become their chosen partner to consult about problems they have. To that end, we are pursuing Otsuka Strategy II, with the aim of forging new relationships with customers that are deeper than before.

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.

● Number of customer companies with transactions per year (KPI 1)

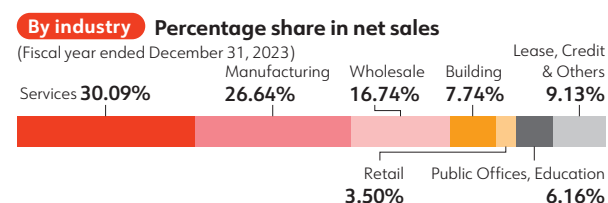
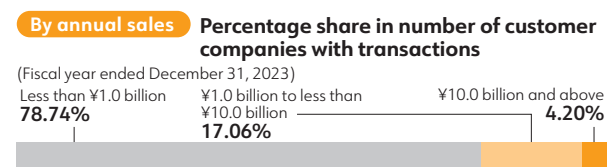
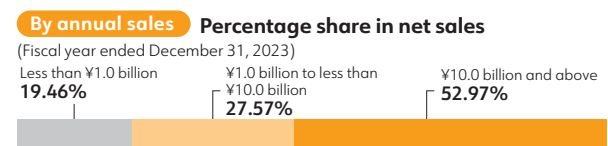
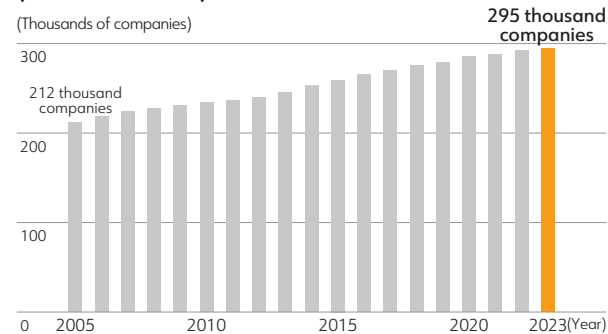
OTSUKA CORPORATION is supported by many customers, from large companies to SMEs. We did business with 295,000 customers in 2023.

Customers with annual sales of ¥10 billion or more account for over 50% of our net sales, but they represent less than 5% of the number of our customer companies. One of the key advantages of OTSUKA CORPORATION is its unique customer base centered on SMEs. Approximately 80% of our customers have annual sales of less than ¥1 billion. Multifunctional devices that OTSUKA CORPORATION has sold since it started as a copier sales company for SMEs in 1961 are now operating in the offices of approximately 100,000 customers. The “tanomail” mail-order service offering office supplies, which are regularly and frequently purchased, has also been utilized by numerous customers. In 2023, the sales of our tanomail business topped ¥200 billion for the first time.

Our customers represent a diverse range of industries. We have packaged the insights we gained from numerous transactions and prepared templates tailored to the specific needs of each industry. We have assembled a wide range of solutions for immediate help. With the consent of customers, we also give examples of how the customers introduced our solutions on our website, which are categorized by their industry and sector. We are thus focused on promotion of our solutions as well so that we will be able to support more customers.



Number of customer companies with transactions per year (non-consolidated)



“ The Good Partner Program to share customers’ success experiences and know-how in IT introduction ”

The Good Partner Program was established in January 2006 with the aim of fostering long-term collaboration and growing and developing together with customers who are actively working to introduce IT. The introduction of core business systems, in particular, can raise mounting concerns in the mind of the persons in charge at the customers, including those about master data setup, data migration, internal training, and post-introduction administration. We help resolve such concerns by sharing the experiences and know-how of customers who have already introduced our systems with customers who are considering whether to introduce them. At the same time, we also assist customers in creating opportunities for them to interact with each other.



Tadao Shinoda
Good Partner Office, Industry
SI Promotion Department

With the cooperation of approximately 300 model users who have agreed to share their cases (as of December 31, 2023), we provide customers who are considering whether to introduce our systems with true-to-life stories, including those about the background to the introduction of the systems, their benefits, challenges, and current operational status. We publish various interview articles and videos and provide opportunities for customers to connect with each other. They have become important pieces of information for the decision making of customers who are considering

whether to introduce our systems, and have also offered a sense of reassurance to them.

The number of customers who have successfully introduced IT in this way and joined the Good Partner Program is increasing. We aim to provide significant value by expanding the circles of relationships of trust with customers. We will continue to strive to forge warm relationships with customers.

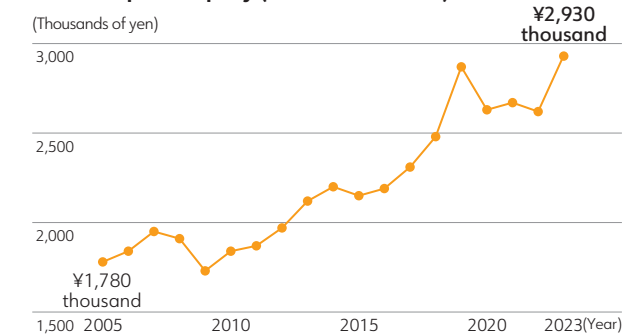


Good Partner

● Net sales per company (KPI 2)

We are striving to increase net sales per company by forging relationships with customers in which they allow us to support their entire office. Based on strong relationships of trust with our customers, we select from countless solutions the suitable ones for the customers. The ability to provide these solutions as an integrated, seamless service is a strength unique to OTSUKA CORPORATION. We propose multifunctional devices and computers to customers who started doing business with us through tanomail. After that, we strive to provide appropriate support tailored to the issues the customers have, including security, various cloud services, ERP, industry-specific solutions, and AI utilization.

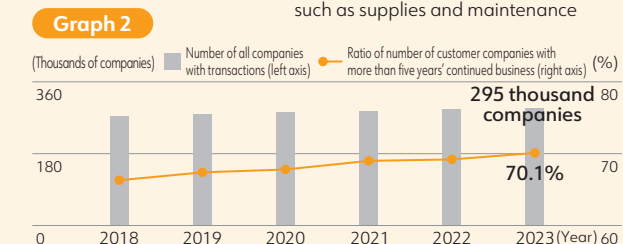
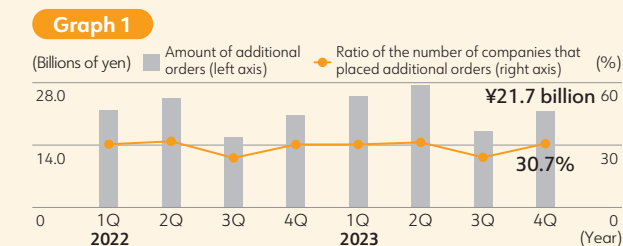
Net sales per company (non-consolidated)



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.

One of the long-term indicators that we monitor throughout the year is the ratio of the number of customer companies with more than five years’ continued business (Graph 2). Net sales per customer company with continued business tend to be larger as support with various solutions accumulates. 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 and this ratio.

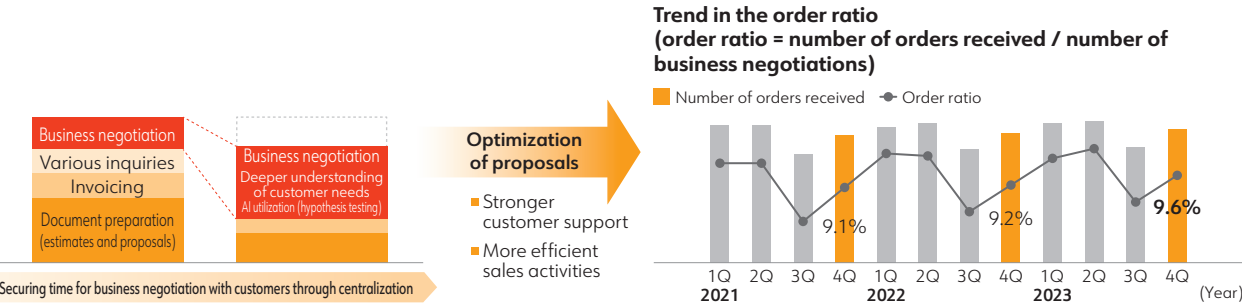


05 Forging New Relationships with Customers

●Order ratio

The quality of proposals to customers is important to increase the number of customer companies with transactions per year and net sales per company. We have worked to create an environment where our sales staff can focus on business negotiation with customers by various measures, including strengthening the back office function

through centralization (→P.27). Furthermore, optimizing proposals through cycles of hypothesis testing utilizing AI leads to stronger customer support and more efficient sales activities. In 4Q of 2023, both the number of orders and the order ratio increased year on year for the second consecutive year.



Otsuka Strategy II

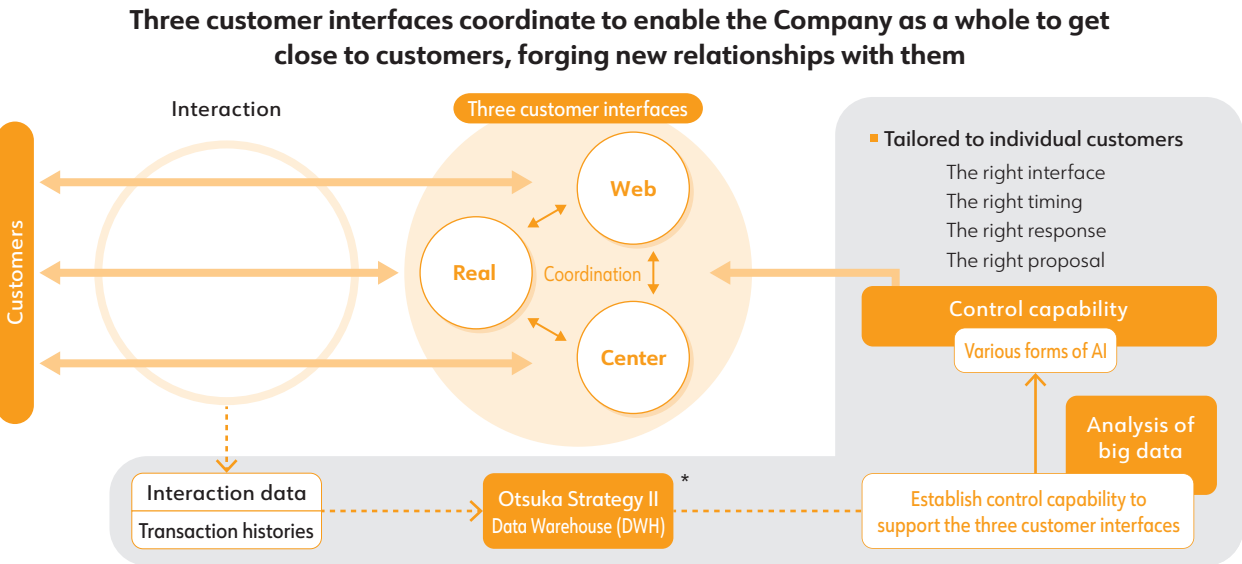
●Get close to our customers through coordination among three customer interfaces

In Otsuka Strategy II, we are striving to forge new relationships with customers by coordination among these three channels.

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 the Real (on-site sales staff and engineers) to make 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 are 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 work to be able to pride ourselves on knowing them better than anyone else, no matter when and where they contact us. We strive to forge relationships with our customers in which 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.



*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.

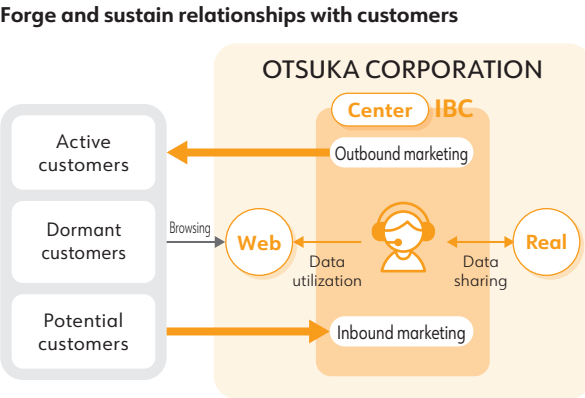


Center The Inside Business Center

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.



●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 value creation cycle of our value creation model.

As for each element of the value creation 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. As a result, we have been able to continue expanding our customer base.

However, only a third of the approximately 295,000 companies that did business with us in 2023 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 value creation 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.

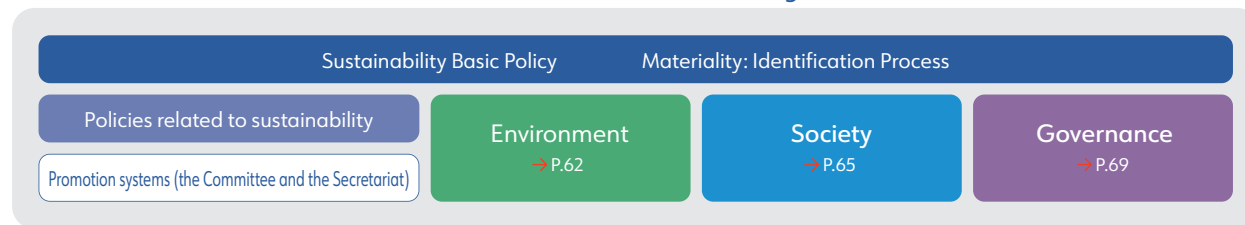
Sustainability Management

OTSUKA CORPORATION promotes sustainability management from a medium- to long-term perspective with the aim of realizing sustainability transformation (SX), which is meant to realize both sustainable society and business. Our Mission Statement, which we announced in 2003, includes the goal, “to demonstrate harmonious coexistence and growth with nature and society.” We have continued to grow while undertaking ESG-conscious initiatives.

With the establishment of the Sustainability Committee in 2021, we have been working to enhance our systems to promote ESG initiatives and striving to strengthen activities to improve their effectiveness.

Realization of our Mission Statement

Value creation for sustainable growth



Initiatives for Sustainability

	Sustainability	E: Environment	S: Society	G: Governance
2021	■ Launched the Sustainability Committee	■ Commemorative Project for Our 60th Anniversary		
2022	■ Formulated related policies (Basic Policy, Materiality, etc.) ■ Formulated the Procurement Guidelines	■ Started reforestation projects in Brazil (the Amazon) → P.64 ■ Started the introduction of renewable energy (Head Office building)	■ Formulated the Human Rights Policies ■ Got certified by the Tokyo metropolitan government as a Best Practice Company in promoting the "barrier-free heart."	■ Established the Nomination & Remuneration Committee
2023	■ Formulated the Multi-stakeholder Policy ■ Conducted the second supplier survey	■ Revised the Environmental Policy ■ Started the SDGs "Arigato (Thank you)" Project → P.64 ■ Received a Special Certificate of Appreciation for the Outstanding Efforts to Pass on the Heritage of Terraced Rice Fields (Ministry of Agriculture, Forestry and Fisheries) ■ Disclosed information in line with the TCFD recommendations ■ Obtained official validation from the SBT Initiative ■ Concluded a virtual PPA → P.63	■ Appointed the second-generation service dog "Luke-kun" as the "Barrier-Free Ambassador for the Heart" ■ Introduced "OWL's," our unique welfare program → P.49 ■ Acquired the Kurumin certification (Ministry of Health, Labour and Welfare) ■ Concluded cooperation agreements for mutual support in disasters → P.67	■ Announced the Medium- to Long-term Management Policy
2024	■ Prepared a GRI Standards cross-reference table	■ Concluded an additional virtual PPA	■ Received Ministerial Commendation for Outstanding Contribution to Society through the Use of the Local Revitalization Support Tax System (Cabinet Office) ■ Recognized as a 2024 KENKO Investment for Health Outstanding Organization (Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi) → P.66	

Secretariat of the Sustainability Committee

In July 2023, the Secretariat of the Sustainability Committee started its activities. It allows us to interact with members across different departments and has been a good opportunity for us to expand the scope of our work. At the Secretariat, we continue to engage in activities to strengthen OTSUKA CORPORATION's sustainability and communicate it widely to society, such as answering corporate questionnaires, creating web pages, and responding to inquiries from inside and outside of the company. While balancing daily tasks with tasks of the Secretariat, including regular meetings, coordination with related departments, and study sessions hosted in rotation by members, can be challenging at times, we aim for all members to continue working together as a united team with determination.



Yuiko Shirota
Environment and Social
Contribution Section,
President's Office

Environment

Environmental Protection Activities

We are actively promoting environmental protection activities so that we can pass on a sustainable environment to the next generation. To this end, we have established the Environmental Policy and the OTSUKA Eco-Action Plan, which is a medium-term action plan, and are taking concrete actions.

Revision to the Environmental Policy

We revised the Environmental Policy in August 2023. In addition to the greenhouse gas emission reduction targets, we have expressed our goal of achieving net zero by 2050. Moreover, we listed conservation of biodiversity as one of our goals and have been working to expand the scope of our initiatives.

OTSUKA Eco-Action Plan

OTSUKA Eco-Action Plan is a medium-term action plan for OTSUKA CORPORATION's environmental conservation activities (2021–2025). We have established environmental management systems to enhance its effectiveness and 25 major sites (offices) nationwide have acquired ISO14001 certification (as of May 2024).

We have internal auditors perform regular audit. We also require employees to take an e-learning course on environment and pass a confirmation test once a year to give them constant internal training.

Climate Change Materiality 7

Responding to global climate change is a major issue that should be tackled globally. In addition to its support to various initiatives, including TCFD's, and the introduction of renewable energy, OTSUKA CORPORATION has continued to make efforts to mitigate climate change through its business activities.

Reporting in line with the TCFD (Task Force on Climate-related Financial Disclosures) Recommendations

OTSUKA CORPORATION announced its support for the TCFD recommendations in February 2022 and disclosed information in line with the recommendations in March 2023. We will work to contribute to the efforts to mitigate climate change 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. Matters deemed important by the Sustainability Committee are reported to the Board of Directors, which deliberates and makes resolutions on important risks and opportunities, gives directions regarding responses, and monitors their progress.

Strategies

We have identified potential risks and opportunities in our entire supply chain associated with climate change. Based on these analyses, each business segment is developing, planning, and implementing specific strategies (measures) on which we place a particularly high priority.

Risk Management

The Board of Directors, the Sustainability Committee, and the Risk Management Committee, among others, closely collaborate with each other to assess risks in an effort to strengthen the management of them.

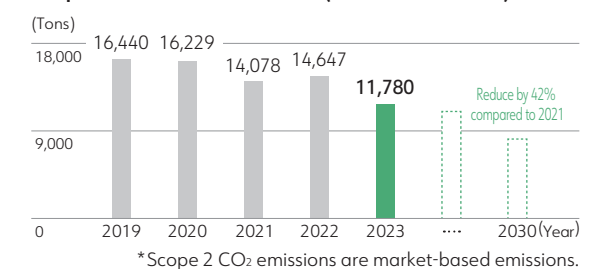
Metrics and Targets

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%

These targets were validated in June 2023 by the SBT Initiative as a science-based reduction targets to aim for the 1.5°C level (WB2°C level for Scope 3).

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



Environment

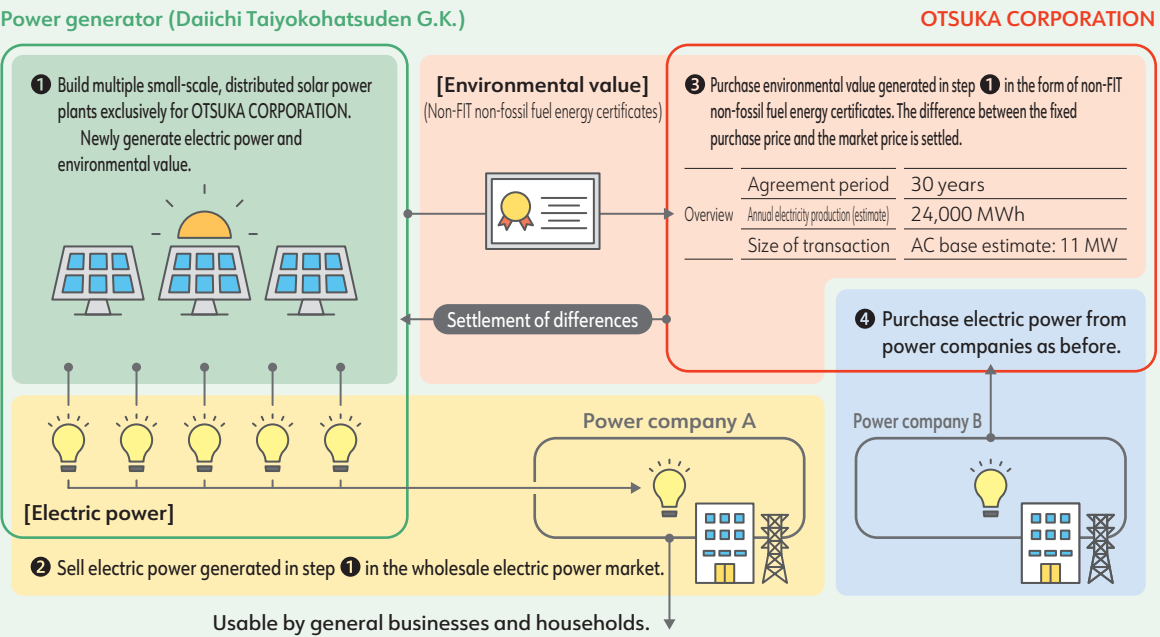
CASE Introduction of renewable energy (Virtual PPA)

In July 2022, we introduced practically renewable energy, combining the usual power with non-fossil certificates, to our Head Office building (Chiyoda-ku, Tokyo). In addition, in August 2023, we concluded an environmental value sale and purchase agreement (Virtual PPA) with Daiichi Taiyokohatsuden G.K. (wholly owned by RENOVA, Inc.). We concluded another Virtual PPA in February 2024, and as a result, approximately 100% of the OTSUKA CORPORATION Group’s total electricity consumption will be from renewable energy sources by the end of March 2028.

Virtual Power Purchase Agreement (Virtual PPA)

Virtual PPA is one of the new forms of electric power introduced in Japan around 2022. Based on a Virtual PPA, a power generator newly constructs power plants. Of the electric power generated by the new plants and the environmental value that certifies the electric power was generated from renewable energy, only the environmental value is traded.

Scheme of the virtual PPA



By utilizing Virtual PPA, even in cases where there are restrictions on the choice of electric power, such as in leased buildings, it becomes possible to contribute to the generation and utilization of clean energy without being affected by the power companies in charge of the offices of OTSUKA CORPORATION.

In addition, idle land, such as abandoned farmland, is utilized as the construction sites of solar power plants. We design and construct power plants with a focus on environmental protection by utilizing the original natural features and topography to minimize the impact on the ecosystem.

By advancing the procurement of renewable energy that makes the most of the power of nature and has additionality, we are strengthening our efforts toward achieving carbon neutrality.



Solar power plant in Hofu City, Yamaguchi Prefecture, which started its operation in April 2024

Initiatives through business activities

OTSUKA CORPORATION promotes spreading and expanding the use of products and services that contribute to the improvement of the environment. We support our customers’ environmental efforts by proposing environmental solutions that we ourselves have introduced and proved highly effective.

Primary environmental solutions

1 LED lighting → CASE	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 Scanning (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

CASE SDGs “Arigato (Thank you)” Project

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. In 2023, 103 customer companies gave us their approvals. Through this activity, we will promote the widespread introduction of LED lighting for businesses and contribute to the realization of a sustainable society.



Biodiversity

In order to realize a sustainable society, it is important to maintain and preserve rich biodiversity, which will continue to support nature’s gifts. OTSUKA CORPORATION has made continuous support efforts, such as overseas afforestation projects and activities to preserve terraced rice fields in Japan. In August 2023, we revised our Environmental Policy and reaffirmed our commitment to the protection of biodiversity and ecosystems. We will thus continue to promote our efforts.

Reforestation project in the Amazon

In 2022, as part of the commemorative project for our 60th anniversary, we started a reforestation project in the Amazon, Brazil, in partnership with Conservation International.*1

The rain forest in the Amazon plays an important role in both climate and biodiversity. At the Belém Nature Reserve in Pará, Brazil, one of the prioritized protection areas in the Amazon, we have introduced an agroforestry*2 system on 10 hectares of land. We are promoting reforestation while also working on our initiatives that contribute to securing food and improving the quality of life of local farmers.

We will continue our support to assist local communities while protecting biodiversity, thereby contributing to the sustainable society.



*1 Conservation International (CI): An international environmental NGO that aims to achieve a sustainable society through nature conservation to ensure well-being for all persons on the earth now and in the future.

*2 Agroforestry: Known as agriculture that creates forests, it is a method of farming to cultivate a wide variety of agricultural and forestry products that are meant to coexist with forests and trees in accordance with the characteristics of the region. People are placing great hopes for the potential of agroforestry as a sustainable form of agriculture that contributes to the economy (job creation and stable income), the environment (reforestation and biodiversity conservation), and society (enhancement of living and educational standards and improvement of public safety).

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
- 2. Scope of application of the policy
- 3. System to promote respect for human rights
- 4. Commitment to human rights issues related to corporate activities
- 5. Human rights due diligence
- 6. Remedies
- 7. Education and training
- 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 e-learning systems (to employees except for those on leave. The ratio of employees who completed the training in 2023: compliance training: 100.0%; harassment training: 99.1%). 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.

Training system	■ Training is available on the web anytime anywhere.	
	■ Training history/progress can be managed on Education My Page for each employee.	
Consultation help desk	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.
	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.

→ Principles of Corporate Behavior

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. In addition, to enhance the health of our employees, we are strengthening our activities aimed at health management.

For details on initiatives for each item, please see the following pages in this Integrated Report: Investment for Growth (Developing Human Resources) → P.45
Improvement of Employee Engagement → P.47
Promotion of Diversity, Equity, and Inclusion → P.49 Human Resource Development → P.51

Initiatives for health management

To strengthen our human capital, it is important to enhance the health of our employees. Since the introduction of health management systems in 2015, we have been making efforts to improve risk indicators, including mitigating the risk of lifestyle-related diseases and reducing long working hours

In 2023, we started to promote the support of awareness reforms and behavioral changes so that employees themselves will proactively maintain their own health and offer e-learning courses on women’s health issues. We have thus been working to enhance employees’ health

literacy. We will continue to support happiness and self-fulfillment of our employees through the deepening of well-being management, thereby achieving sustainable growth.

In March 2024, we were recognized as one of the 2024 KENKO Investment for Health Outstanding Organization, which were jointly selected by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi.



Social Contribution Activities

We engage in a wide range of social contribution activities, from company-led activities that take advantage of the business characteristics of OTSUKA CORPORATION to spontaneous volunteering activities by employees. 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.

Initiatives that leverage the characteristics of our business

We are promoting social contribution activities that leverage the unique characteristics of our business, such as donating reused PCs and effectively utilizing returned items from tanomail business.

Item	Overview	Details	2022 Results	2023 Results
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 Sponsorship money	107 ¥3.00 million	91 ¥3.00 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.	Support amount (October to the next September)	Four organizations Approx. ¥2.60 million	Four organizations Approx. ¥2.50 million
Gift from TANO-kun → VOICE P.67	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.	Number of products donated Number of recipient organizations	5,306 35 organizations	4,884 36 organizations
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 products donated	92	55
Donation of sanitary products	In 2023, in addition to the above, we donated disposable gloves, masks, and other sanitary products to NPOs and welfare facilities engaged in soup kitchen activities and caregiving services.	Number of products donated Number of recipient organizations	— —	69,684 241 organizations
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 products donated	35,214	30,188
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.		—	—

Society

VOICE

Gift from TANO-kun

With the rising prices, it has become quite difficult to purchase even small office supplies. We will treasure the items we received and use them for the children.

(Sakuranbo kodomo kyoshitsu: Tokyo)
After-school daycare services

Thank you for your continuous donations. Your support encourages us not only financially but also emotionally.

(Open Space Catch: Ehime Prefecture)
Group of parents of children with disabilities

As we depend on donations and grants for our activities, your support is deeply appreciated.

(Playworkers: Miyagi Prefecture)
Projects for creating children's play areas, etc.

We learned for the first time that OTSUKA CORPORATION contributes to society by donating such products. Your support is immensely appreciated.

(Shin Nihon Gakuen: Kanagawa Prefecture)
(Via Kanagawa Prefecture Community Chest)
Operation of welfare facilities and daycare centers for children

Initiatives involving employees

Support through the Company's gift matching programs and other voluntary activities of employees are also expanding at the Head Office and other business locations.

Item	Overview	Details	2022 Results	2023 Results
Heartful Fund →CASE	It is a gift matching program for employees and the Company. We support organizations engaged in disaster relief and other activities that serve public interest.	Number of projects supported	25	35
		Support amount	¥6.10 million	¥8.30 million
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.	Empty contact lens cases	54 kg	64 kg
		Used stamps	14 kg, etc.	9 kg, etc.
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 drives held	6	5
		Number of participants	171	194
		Amount of blood donated	67,200 ml	74,800 ml
Cleanup activities in the local communities	We clean roads, parks, etc. near our head office and other offices in various locations.	Number of cleaning activities performed	18	24
		Number of participants	132	206
Accept company visits	We support education for career development by accepting company visits from junior high school students.	Number of schools we welcomed	Three schools (four times)	Three schools (four times)
		Number of students	15	14

CASE

Support activities through the Heartful Fund

The OTSUKA CORPORATION Heartful Fund sets themes and invites applications from organizations that seek support on its website once or twice a year. Since its start in 2003, it has given support of over ¥100 million.

In 2023, we invited applications from organizations that seek support under two themes: enhancement of environment of disaster-stricken areas, solutions of issues caused by disasters, and projects to prevent disasters; and experiential learning programs for the healthy growth and learning of children. We received applications from 47 organizations in total. After prescribed member screening, we provided support to 18 organizations. Here are the activities performed by some of them.

■ Let's Have Fun and Learn! Disaster Prevention Class for Everyone (SHOIN)

We held a disaster prevention class with the aim of raising disaster prevention awareness and strengthening collaboration in the community. With the cooperation of local elementary schools and the fire department, the event provided an opportunity to experience practical disaster prevention activities, such as a smoke house, the Disaster Emergency Message Dial, and water fire extinguishers. At our Children's Cafeteria, we held a session to taste food stockpiled for disasters. It not only conveyed the importance of preparation for disasters, but also served as a training opportunity for providing warm meals at shelters in an emergency. We received feedback from approximately 200 participants with comments, including "It was great to have first-hand experience." and "This class has made me think about purchasing supplies for disasters." It was our first disaster prevention class. Our commitment was reaffirmed to making it a regular program.

■ Explore! Let's Find Out the Secret of the Mobile ENEKOYA – What makes it eco-friendly? (ENEKOYA)

We visit students' locations with the Mobile ENEKOYA to give them an opportunity to think about energy in our daily lives and global warming. The Mobile ENEKOYA is a small building (or hut) in which you can spend time comfortably using only energy generated by power of nature. We aim to achieve an energy-circulating society through this activity. The support money from OTSUKA CORPORATION enabled us to visit and give classes at five elementary schools in Tama City. We hope that these classes will serve as an inspiration for the children and make them more interested in the energy they use than before. We will continue our activities for the future of children.

CASE

Concluded cooperation agreements for mutual support in disasters

In recent years, the importance of disaster response has been reemphasized. To maintain social infrastructure and ensure business continuity, it is important to develop disaster response measures not just as standalone efforts within an organization, but as collaborative schemes that extend beyond organizational boundaries.

In 2021, as part of the commemorative project for our 60th anniversary, we provided support to regions expected to be affected by the Nankai Trough earthquake and areas that suffered damage from abnormal weather conditions, such as typhoons and heavy rain. In addition, in 2023, we further advanced our efforts by concluding cooperation agreements for mutual support in disasters to ensure that emergency measures can be implemented promptly and smoothly in the event of a disaster in partner municipalities.^{*1}

We have made in-kind donations of supplies and equipment, including daily essentials, and portable water recycling shower kits that can be installed in shelters. We aim to contribute to the safe and secure lives of local residents by supporting the development of a system for extensive mutual cooperation among municipalities and ensuring their lifelines.

In making the donations, we used the local revitalization support tax system (corporate version of hometown tax payment).^{*2} In January 2024, we were awarded a Ministerial Commendation pertaining to the Corporate Version of Hometown Tax Payment for the Fiscal Year 2023 as a company that had made significant achievements in utilizing the program and undertaken initiatives that served as a model for others.

Ms. Hanako Jimi, Minister of State, Cabinet Office (on the left) and Yuji Otsuka

^{*1} Partner municipalities: 15 in total
(Ehime Prefecture: Uwajima City, Seiyō City, Matsuno Town, Kihoku Town, and Ainan Town; Kochi Prefecture: Sukumo City, Tosashimizu City, Shimanto City, Shimanto Town, Otsuki Town, Mihara Village, and Kuroshio Town; Hyogo Prefecture: Sumoto City, Minamiawaji City, and Awaji City)

^{*2} Corporate version of hometown tax payment: A program that allows companies that have donated to regional revitalization projects run by local governments to receive tax credits on their corporate taxes

CASE

Volunteering Month – Braille Workshop

We designate every September as Volunteering Month. It is a month to strengthen social contribution and volunteering activities involving employees. In 2023, as part of our activities to raise awareness, we held a workshop related to braille. Participants enjoyed learning about braille and actually used braille printers to create original 2024 calendars and business cards.

Governance

Materiality 9

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 27, 2024)

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	
 Yuji Otsuka President & Chief Executive Officer	32	●	○	○	○	○	○	○	○	General Manager of Marketing Headquarters
 Kazuyuki Katakura Managing Director & Senior Executive Operating Officer	27	—	○	○	○	○	○	○	○	General Manager of Sales Headquarters, Deputy General Manager of Marketing Headquarters
 Hironobu Tsurumi Managing Director & Executive Operating Officer	14	—	○	○	○	○	○	○	○	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, General Manager of CAD Promotion Department
 Hironobu Saito Managing Director & Executive Operating Officer	17	●	○	○	○	○	○	○	○	General Manager of Business Administration Headquarters, In charge of Project Promotion Office, In charge of Office of Auditors, In charge of Multi-AI Research Center, In charge of Customer Personalized Pages Promotion Center
 Minoru Sakurai Managing Director & Operating Officer	13	—	○		○		○	○	○	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department
 Jiro Makino <small>Outside Independent</small> Director	9	● Chairperson	○		○					Corporate Legal Affairs
 Tetsuo Saito <small>Outside Independent</small> Director	8	●	○	○		○				Corporate Management (Governance)
 Makiko Hamabe <small>Outside Independent</small> Director	3	●	○	○		○				Sustainability, ESG, IR

Audit & Supervisory Board Members (as of March 27, 2024)

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	
 Tatsumi Murata Standing Audit & Supervisory Board Member	3	—		○	○		○			Business in general
 Kazuhiko Nakai <small>Outside Independent</small> Audit & Supervisory Board Member	12	—	○	○						Finance, Accounting
 Etsuo Hada <small>Outside Independent</small> Audit & Supervisory Board Member	8	—	○	○	○					Finance, Accounting, Corporate Legal Affairs
 Katsumasa Minagawa <small>Outside Independent</small> Audit & Supervisory Board Member	4	—	○		○					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

Succession plan

In order to constantly increase the effectiveness of the Board of Directors, we have developed a succession plan for Directors. As a development program, we launched “OTSUKA Leader’s College” in 2015 (→P.52) and started training programs for developing candidates for successors of the next generation and the generation after the next. We give a curriculum that fosters the knowledge, expertise,

and experience that will contribute to achieving sustainable growth of the Company and medium- to long-term improvement of corporate value. In the curriculum, we also emphasize the importance of being an individual of good character, which is part of the policy on election of candidates for Directors.

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 24 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.

Board of Directors

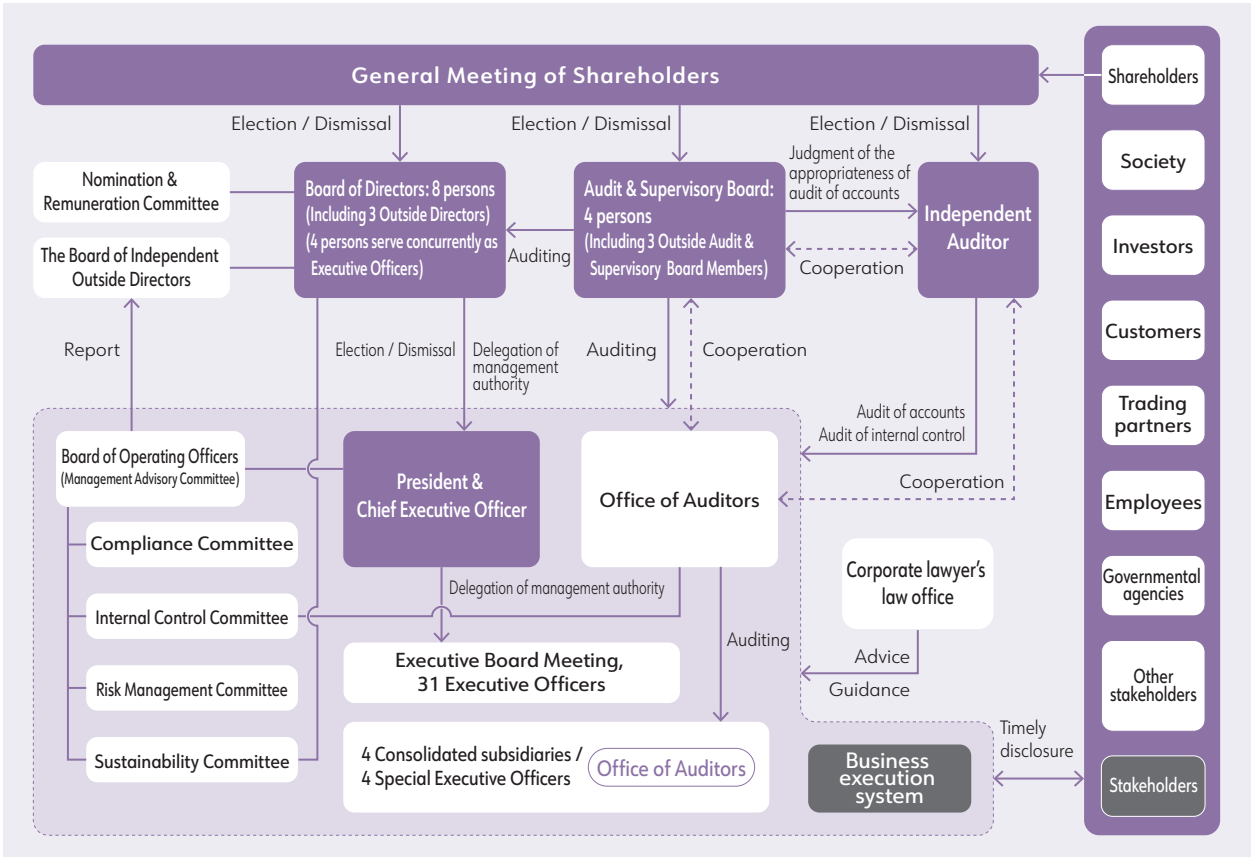
The Board of Directors is chaired by Yuji Otsuka, President & Chief Executive Officer, and consists of eight persons, including three Outside Directors. The Board of Directors holds a regular meeting once a month, in principle, to

deliberate and decide on important matters that require its resolutions as stipulated by laws and regulations and the Articles of Incorporation and supervises the execution of duties by Directors.

Main resolutions and reports at the Board of Directors’ meetings (Fiscal year ended December 31, 2023)

Management and business	<div>■ Investment in AVILEN, Inc.</div> <div>■ Changes in organizations and personnel assignments</div> <div>■ Matters regarding distribution centers (relocation, expansion, and enhancement)</div> <div>■ Medium- to Long-term Management Policy</div> <div>■ Investment in Happiness Planet, Ltd.</div>
Governance	<div>■ Report of the Nomination & Remuneration Committee</div> <div>■ Matters regarding the 62nd Annual General Meeting of Shareholders (agenda, officer assignments, matters to be resolved, etc.)</div> <div>■ KAM (key audit matters)</div> <div>■ Submission of the corporate governance report</div> <div>■ Sale of policy stocks</div> <div>■ Promotion of constructive dialogue with shareholders and disclosure</div>
Sustainability	<div>■ Act on the Promotion of Women’s Active Engagement in Professional Life: Draft of a five-year action plan and measures to support balancing work and life</div> <div>■ Revisions to rules: Employment Regulations, Personal Information Protection Rules, rules pertaining to additional measures to generate job satisfaction, sales management, health management, etc.)</div> <div>■ Information disclosure in line with the TCFD recommendations</div> <div>■ Donations through the corporate version of hometown tax payment (Fukuoka City, the Seinan Area of Shikoku, etc.).</div> <div>■ Conclusion of a virtual PPA</div> <div>■ Revision to the Environmental Policy</div>

Corporate governance system chart (As of March 27, 2024)



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, 2022

Target	The 62nd term (the fiscal year ended December 31, 2022)
Period	From late May to early July, 2023
Method	Three Independent Outside Directors distributed and collected questionnaires to Directors and Audit & Supervisory Board Members (12 in total), and conducted individual interviews based on aggregated results as necessary.

2 Identified issues

Composition	■ Appointment of young Directors and an increase in the number of young Directors
Management	■ Early provision of materials ■ Summarizing key points of proposals and other matters
Agenda	1. Succession plan for Representative Directors 2. Introduction of a remuneration plan that will be a medium- and long-term incentive 3. Share-based compensation program
System	■ Appropriate, in general. It is necessary to gain knowledge on international and gender issues.
Other	Matters to be addressed in order to aim for sustainable growth 1. Adaptation to changes in the market environment 2. Investment in human capital 3. Whether to establish an investment committee

3 Progress in addressing the issues in 2023

Composition	■ Promoted the appointment of young Executive Officers who have potential as candidates for Director and prepared for candidate selection.
Management	■ Presented an annual schedule and delivered materials early in an effort to make more improvements.
Agenda	1. Continuing to develop candidates to succeed Representative Directors by training them in OTSUKA Leader’s College. 2. As for the introduction of a remuneration plan that will be a medium- and long-term incentive, studying trends at other companies and discussing what systems and programs will be suitable for the Company. 3. Comparing trends at other companies and other compensation programs at the Nomination & Remuneration Committee and the Management Advisory Committee and discussing what program design will be suitable for the Company.
System	■ Discussing methods for providing training opportunities to Directors.
Other	1. Discussing value-added products in response to changes in the market environment. 2. Will implement measures, including those to create job satisfaction, to enhance employee engagement and promote the improvement of the workplace environment at the same time. 3. Discussing whether to establish an investment committee, which would verify and provide advice on investment projects with the aim of minimizing risks in investment projects and increasing investment returns.

Remuneration for Directors

Remuneration for Directors (excluding Outside Directors) shall be monetary remuneration within the range approved by a resolution of the General Meeting of Shareholders and shall comprise basic remuneration, bonuses, earnings bonuses, retirement benefits for officers (saving-type remuneration at time of retirement) and corporate-type defined contribution pension plan (standing Directors under 60 years old).

For Directors who concurrently serve as Executive Officers, position and performance as an Executive Officer shall also be considered in determining their Director remuneration. Remuneration levels as well as the percentages of each of the following types of remuneration as individual remuneration for Directors are set according to job responsibilities and contributions, etc., giving reference to survey data from external specialist organizations. With the aim of strengthening the transparency, fairness, and objectivity of the procedures related to remuneration, the Nomination & Remuneration Committee* was established in March 2022.

*The Nomination & Remuneration Committee consists of at least five Directors, a majority of whom are Independent Outside Directors.

→ Status of activities by the Nomination & Remuneration Committee Annual Securities Report (P.41)

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

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

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

Constituent members

The Compliance Committee belongs to the Internal Control Committee.

→ Compliance system chart

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.

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. e-Learning

All employees are required to take the following e-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 e-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.19)

Risk Management System



Information security to provide safe and secure solutions

Materiality 8

The OTSUKA CORPORATION Group possesses an abundance of individual and corporate information pertaining to operations. The Group's operations could be significantly impacted in the unlikely event that such information is leaked outside the Group because the Group not only assumes liabilities for damage but also loses trust by society. OTSUKA CORPORATION has therefore obtained various certifications, including PrivacyMark, ISMS, and ISO27017, and handles information leakage risks carefully. In addition, OTSUKA CORPORATION has released an internal and external Personal Information Protection Policy as well as established regulations on personal information protection and confidentiality to raise awareness of information management. The Company implements even more stringent measures for its information systems. These include technical

measures used at entrances, internally and at exits as well as third-party external diagnoses, regular drills against targeted e-mail attacks, and security monitoring and response organizations equivalent to Computer Security Incident Response Team (CSIRT) such as cyber vigilantes.

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

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]

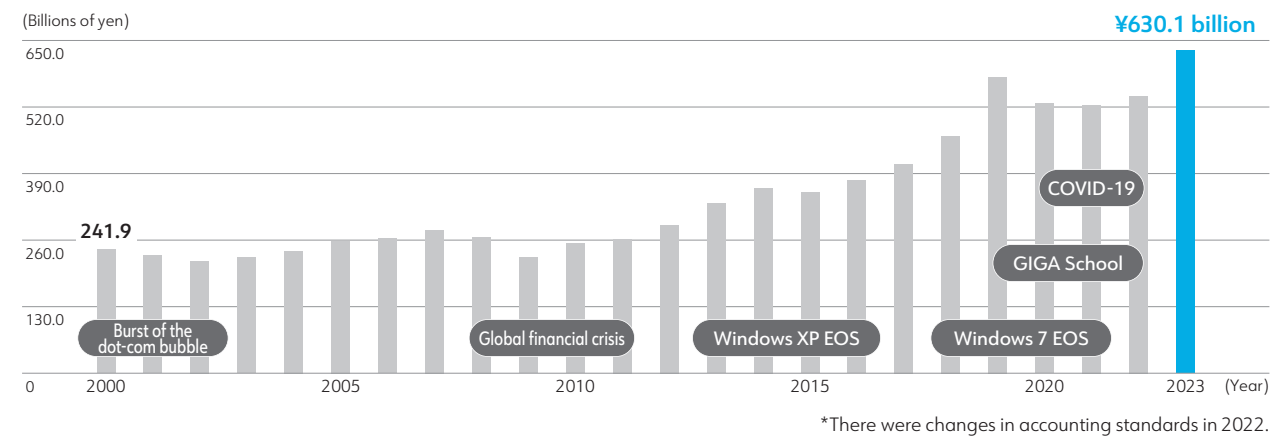
We suffered temporary declines due to the burst of the dot-com bubble, the global financial crises, etc. However, when there was renewal demand associated with the end of support (EOS) for Windows, we provided customers with PCs and related solutions, supported their effort to improve productivity and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



Service and Support Business

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

"tayoreru," which has one of the largest technical call 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.

Accumulated business → P.38

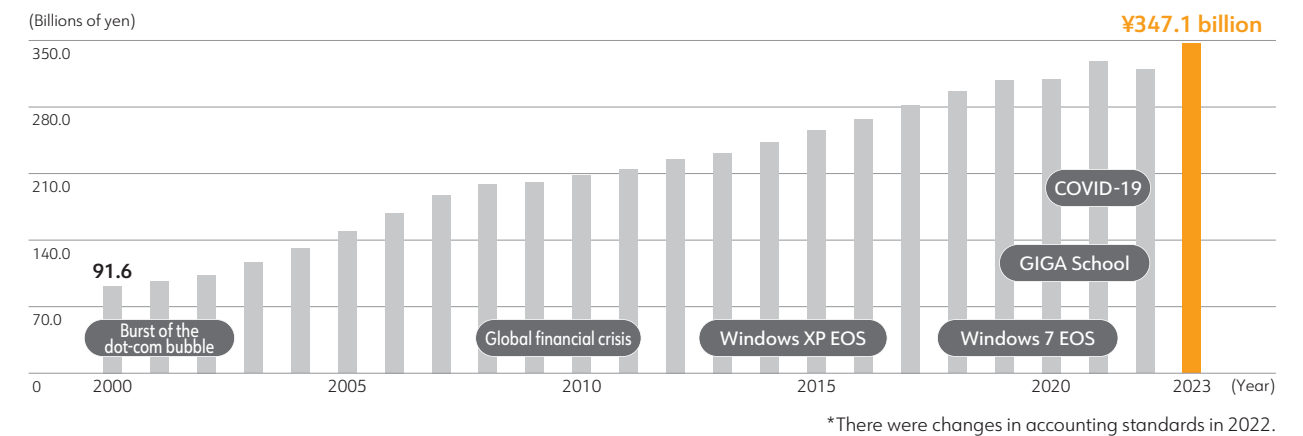
Long-term change in net sales [Characteristics and strengths]

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.

Excluding the effect of changes in accounting standards (2022), the business has grown for 23 consecutive years, making it the foundation for stable growth of OTSUKA CORPORATION.

Long-term change in net sales

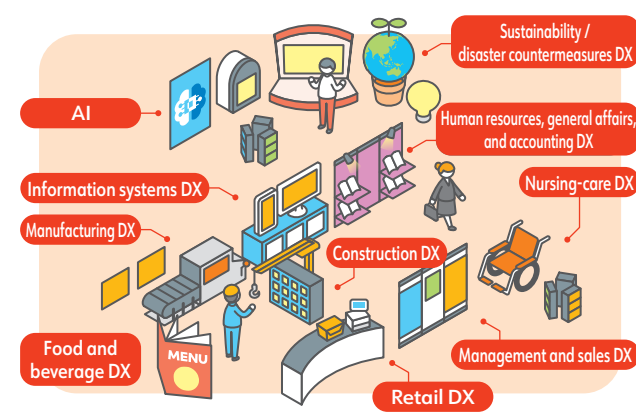


Practical Solutions Fair 2024

The New Style of DX, Starting with AI

The Practical Solutions Fair is OTSUKA CORPORATION's largest exhibition event for customers held in February every year. For the 47th Fair in 2024, we invited a total of approximately 10,000 companies and 14,000 customers at our Tokyo, Osaka, and online venues.

For the promotion of DX, it is important to strengthen each function of predictive analytics and decision-making support, including streamlining and automating operations, by utilizing the latest technologies. At the Practical Solutions Fair, we introduce ready-to-use solutions that combine the latest IT products with our various services & support in a practical way. We make various efforts so that customers can experience the value of DX at the venue, including OTSUKA CORPORATION's cases.



We had layouts divided by department, industry, and theme to solve customers' "common issues" in line with their business, including generative AI such as Copilot for Microsoft 365 (→ P.55). We held a number of seminars that provide hints for AI utilization and DX promotion, including special lectures by prominent lecturers and leaders representing various industries and fields. We also provided reruns for a limited period of time at our online venue.

On the main stage, we presented demonstrations and cases in the form of skits so that customers could visualize the scenes and points of use even in a short time. We also introduced new features of the integrated DX package.

We made it a practical solutions fair where many partner products are presented in one place, which is very unique to OTSUKA CORPORATION, including comparative exhibition of Windows 11 PCs of 10 companies.



Tokyo venue: main stage

Principal Financial and Non-Financial Data

			2013	2014	2015	2016		2017	2018	2019	2020	2021	2022	2023
Consolidated	Financial results	Net sales* ¹	564,595	605,766	609,045	643,417		691,166	759,871	886,536	836,323	851,894	861,022	977,370
		System Integration business* ¹	332,067	362,068	353,170	376,391		408,718	463,293	578,698	526,613	523,609	541,671	630,185
		Service and Support business* ¹	231,868	243,316	255,490	266,625		282,064	296,577	307,837	309,710	328,284	319,350	347,185
		Other business* ²	658	381	385	400		383	—	—	—	—	—	—
		Operating profit	33,901	37,097	37,311	39,684		44,386	48,058	62,192	56,309	55,827	54,768	62,959
		Ordinary profit	33,505	38,144	38,240	40,780		45,460	49,285	63,706	57,550	57,567	56,639	64,517
		Profit attributable to owners of parent	20,271	23,455	23,705	26,675		31,560	33,601	43,497	39,309	39,927	40,022	47,448
	Financial position	Total assets	279,589	305,513	324,755	343,821		380,317	406,732	461,812	471,292	486,254	523,016	561,805
		Equity	144,150	163,277	173,229	189,851		212,897	229,726	259,328	277,348	298,743	319,388	343,112
		Interest-bearing debt	9,070	9,584	9,344	9,008		8,873	8,256	8,807	8,895	8,851	8,441	8,188
	Cash flows	Net cash provided by (used in) operating activities	18,780	34,130	27,621	23,932		36,153	38,646	48,762	32,496	57,873	29,196	71,649
		Net cash provided by (used in) investing activities	(3,468)	(5,410)	(7,235)	(5,823)		(5,243)	(11,096)	(7,934)	(8,716)	(9,160)	(8,355)	(21,473)
		Net cash provided by (used in) financing activities	(6,561)	(7,580)	(8,742)	(9,532)		(11,528)	(13,470)	(16,221)	(20,988)	(21,957)	(23,307)	(23,839)
		Cash and cash equivalents at end of period	76,863	97,943	109,587	118,183		137,545	151,585	176,198	178,988	205,746	203,274	229,615
	Per share data* ³	Earnings per share (EPS) (yen)	106.92	123.71	125.03	140.69		166.46	177.22	229.42	207.33	210.59	211.09	250.26
		Dividend per share of common stock (yen)* ⁴	39.16	45.00	50.00	60.00		70.00	85.00	110.00	115.00	120.00	125.00	135.00
		Dividend payout ratio (%)	36.63	36.38	39.99	42.65		42.05	47.96	47.95	55.47	56.98	59.22	53.94
	Productivity	Net sales per employee (thousands of yen)	69,634	73,551	72,617	75,359		79,829	87,021	99,476	91,712	92,889	93,508	103,743
		Operating profit per employee (thousands of yen)	4,181	4,504	4,448	4,647		5,126	5,503	6,978	6,174	6,087	5,947	6,682
	Main financial indicators	Return on equity (%)	14.87	15.26	14.09	14.69		15.67	15.18	17.79	14.65	13.86	12.95	14.32
		Operating profit to Net sales ratio (%)	6.00	6.12	6.13	6.17		6.42	6.32	7.02	6.73	6.55	6.36	6.44
		Equity ratio (%)	51.56	53.44	53.34	55.22		55.98	56.48	56.15	58.85	61.44	61.07	61.07
Non-consolidated	Environment	Scope 1 CO ₂ emissions (tCO ₂)	6,051	5,987	6,186	6,185		6,136	6,179	6,753	6,672	5,636	5,839	5,476
		Scope 2 CO ₂ emissions (location-based) (tCO ₂)	—	—	—	—		—	—	10,507	9,971	8,479	8,490	8,450
		Scope 2 CO ₂ emissions (market-based) (tCO ₂)	—	—	—	—		—	—	9,687	9,557	8,442	8,808	6,304
		Energy and electricity consumption (thousand kWh)	—	—	—	—		—	—	21,531	21,214	19,582	19,518	19,292
		Number of ISO14001-certified business sites (sites)	25	25	25	25		25	25	25	25	25	25	25
Consolidated	Employees	Number of regular employees (people)	8,108	8,236	8,387	8,538		8,658	8,732	8,912	9,119	9,171	9,208	9,421
Non-consolidated		Number of regular employees (people)	6,634	6,758	6,837	6,985		7,080	7,145	7,272	7,429	7,480	7,524	7,713
		Men (people)	5,351	5,421	5,462	5,545		5,570	5,596	5,627	5,692	5,683	5,668	5,751
		Women (people)	1,283	1,337	1,375	1,440		1,510	1,549	1,645	1,737	1,797	1,856	1,962
		Employee awareness survey answer rate (%)	84	83	78	75		78	74	74	73	77	75	84
		Training costs for regular employees (millions of yen)	491	462	490	445		461	470	489	530	590	811	980
		Education and training costs per employee (thousands of yen)	74	68	71	63		65	65	67	71	78	107	127
		Number of new graduates recruited (men and women) (people)	214	300	298	356		336	301	366	359	352	298	399
		Men (people)	154	209	221	273		232	212	244	243	250	199	275
		Women (people)	60	91	77	83		104	89	122	116	102	99	124
		Ratio of men (%)	72.0	69.7	74.2	76.7		69.0	70.4	66.7	67.7	71.0	66.8	68.9
		Ratio of women (%)	28.0	30.3	25.8	23.3		31.0	29.6	33.3	32.3	29.0	33.2	31.1
	Governance	No. of Directors (people)	12	12	13	14		13	14	12	12	10	10	8
		Men (people)	12	12	13	14		13	14	12	12	9	9	7
		Women (people)	0	0	0	0		0	0	0	0	1	1	1
		Average attendance rate of outside directors (%)	—	—	100	97		94	100	100	100	100	98	98
		Number of executive officers (total) (people)	17	18	20	20		21	20	23	24	27	33	26
		Men (people)	17	18	20	20		21	20	23	24	27	32	25
		Women (people)	0	0	0	0		0	0	0	0	0	1	1

*1 The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) since 2022.
 *2 Otsuka Auto Service Co., LTD., which was a consolidated subsidiary, was excluded from consolidation from 2018 due to its reduced impact on consolidated business results. Along with this, the Other business segment is not listed from 2018 due to the absence of business results.

*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 2013.
 *4 The dividend for 2016 includes the 55th anniversary commemorative dividend of ¥5.00. The dividend for 2021 includes the 60th anniversary commemorative dividend of ¥5.00.

Financial Statements

Consolidated Balance Sheets

(Millions of yen)

Amount			Amount		
Item	As of December 31, 2022	As of December 31, 2023	Item	As of December 31, 2022	As of December 31, 2023
Assets			Liabilities		
Current assets	435,113	459,794	Current liabilities	190,683	203,263
Cash and deposits	202,288	228,692	Notes and accounts payable – trade and electronically recorded obligations – operating	118,960	125,317
Notes and accounts receivable – trade, and contract assets	152,405	155,269	Short-term borrowings	6,100	4,400
Inventories	44,832	38,237	Other	65,622	73,545
Other	35,587	37,595	Non-current liabilities	9,600	11,591
Non-current assets	87,902	102,010	Long-term borrowings	–	1,700
Property, plant and equipment	35,835	34,674	Retirement benefit liability	6,360	6,961
Intangible assets	15,770	16,065	Other	3,240	2,929
Investments and other assets	36,296	51,270	Total liabilities	200,283	214,854
Total assets	523,016	561,805			
			Net assets		
			Shareholders’ equity	315,149	338,025
			Share capital	10,374	10,374
			Capital surplus	16,254	16,254
			Retained earnings	288,660	311,537
			Treasury shares	(140)	(141)
			Accumulated other comprehensive income	4,239	5,087
			Non-controlling interests	3,343	3,838
			Total net assets	322,732	346,950
			Total liabilities and net assets	523,016	561,805

Consolidated Statements of Changes in Equity

(Millions of yen)

Fiscal year ended December 31, 2023	Shareholders’ equity				Total shareholders’ equity	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares				
Balance at beginning of period	10,374	16,254	288,660	(140)	315,149	4,239	3,343	322,732
Dividends of surplus			(23,700)		(23,700)			(23,700)
Profit attributable to owners of parent			47,448		47,448			47,448
Reversal of revaluation reserve for land			(871)		(871)			(871)
Purchase of treasury shares				(0)	(0)			(0)
Net changes in items other than shareholders’ equity						847	494	1,342
Total changes during period	–	–	22,876	(0)	22,876	847	494	24,218
Balance at end of period	10,374	16,254	311,537	(141)	338,025	5,087	3,838	346,950

Consolidated Statements of Income

(Millions of yen)

Amount		
Item	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Net sales	861,022	977,370
Cost of sales	676,853	773,392
Gross profit	184,169	203,978
Selling, general and administrative expenses	129,400	141,019
Operating profit	54,768	62,959
Non-operating income	2,022	2,224
Non-operating expenses	151	665
Ordinary profit	56,639	64,517
Extraordinary income	1,147	839
Extraordinary losses	1,277	464
Profit before income taxes	56,509	64,892
Income taxes – current	16,840	17,542
Income taxes – deferred	(842)	(738)
Profit	40,511	48,089
Profit attributable to non-controlling interests	488	640
Profit attributable to owners of parent	40,022	47,448

Consolidated Statements of Comprehensive Income

(Millions of yen)

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

Consolidated Statements of Cash Flows

(Millions of yen)

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

Corporate Information/Stock Information (as of December 31, 2023)

* The Company executed a two-for-one stock split, effective April 1, 2024.
The following information does not reflect this stock split.

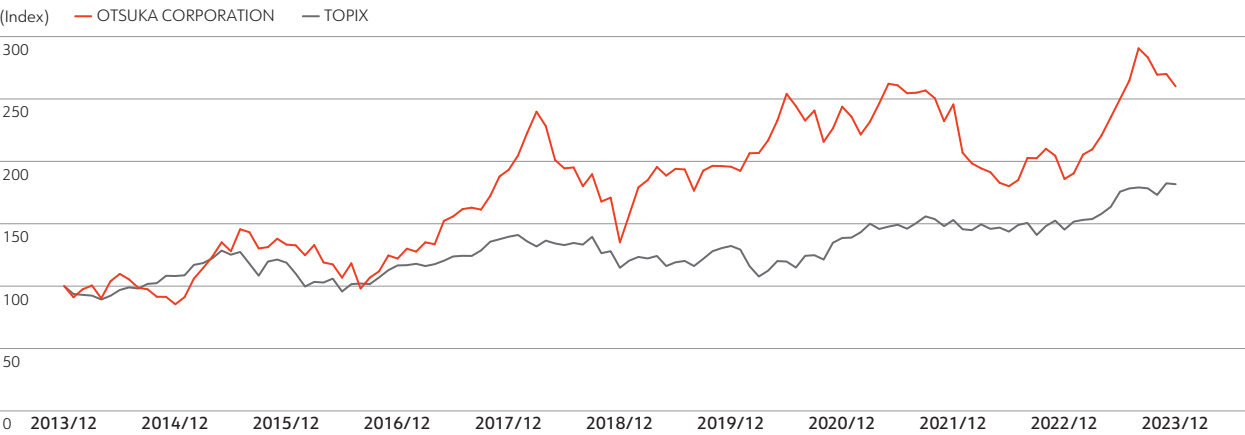
Corporate Information

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: 9,421 Non-consolidated: 7,713
Fiscal Year	From January 1 to December 31 (Annual General Meeting of Shareholders: March)
Business	■ System Integration Business → P.75 ■ Service and Support Business → P.76
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

OTSUKA CORPORATION	Providing market information	OSK Co., LTD.
	Developing and supplying packaged software	
	Providing market information	Networld Corporation
	Supplying IT network-related products	
	Technical support	Alpha Net Co., LTD.
	IT system operation and monitoring services	
	Technical support and supplying maintenance parts	Alpha Techno Co., LTD.
	Equipment repair and data restoration services	

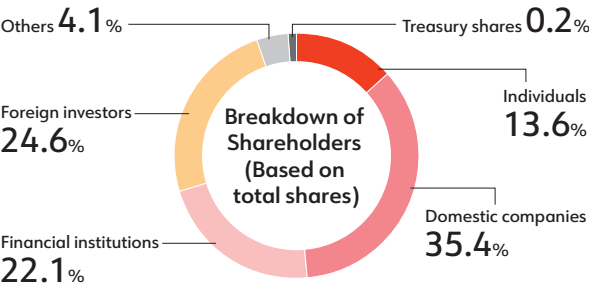
Stock Price Trends



(Note) Changes in the stock price index with the stock price at December 31, 2013 set to equal 100.

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	6,881
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)	19,422	10.24
Custody Bank of Japan, Ltd. (Trust Account)	14,023	7.39
Yuji Otsuka	4,681	2.46
OTSUKA CORPORATION Employee Stock-Sharing Plan	4,406	2.32
Keiko Otsuka	3,481	1.83
JP Morgan Securities Japan Co., Ltd.	2,951	1.55
STATE STREET BANK WEST CLIENT-TREATY 505234	2,459	1.29
SMBC Nikko Securities Inc.	2,185	1.15
Atsushi Otsuka	1,860	0.98

(Note) Equity Ownership is calculated after deducting treasury stock (401,198 shares).

Selected among the Noteworthy DX Companies 2024 for the first time

OTSUKA CORPORATION has been selected among Noteworthy DX Companies 2024 as part of the Digital Transformation Stocks (DX Stocks) 2024 by the Ministry of Economy, Trade and Industry (METI), the Tokyo Stock Exchange (TSE) and the Information-technology Promotion Agency, Japan (IPA).



DX-Certified Operator

OTSUKA CORPORATION obtained certification as a DX-certified operator from METI in 2021 and renewed its certification in 2023.



Most-improved Integrated Report Selected by GPIF's Asset Managers Entrusted with Domestic Equity Investment

The "OTSUKA CORPORATION Integrated Report 2023" was selected as a Most-improved Integrated Report by the Government Pension Investment Fund (GPIF)'s asset managers.

→ OTSUKA CORPORATION Integrated Report 2023



Other certifications, etc. (Excerpt)

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was a task force established by the Financial Stability Board (FSB) at the request of the G20 to "improve companies' reporting of climate-related financial information and provide a useful framework within financial markets." In 2023, OTSUKA CORPORATION conducted disclosure based on the TCFD recommendations.



CDP (formerly Carbon Disclosure Project)

An NGO that operates an international system for environmental disclosure. OTSUKA CORPORATION submitted a response to the CDP Climate Change Questionnaire for the first time in 2021 and obtained a score of B in 2023.



Eruboshi certification

OTSUKA CORPORATION was awarded the *Eruboshi* certification (the highest three-star rating) by the Minister of Health, Labour and Welfare (MHLW) in recognition of its efforts to promote the advancement of female employees in the workplace.



Certified KENKO Investment for Health Outstanding Organization

OTSUKA CORPORATION was recognized as one of the Outstanding Organizations (large enterprise category) under the 2024 Certified KENKO Investment for Health Outstanding Organizations Recognition Program, which is jointly operated by METI and the Nippon Kenko Kaigi.



Science Based Targets (SBT)

SBT provides a clearly-defined pathway for companies to reduce greenhouse gas (GHG) emissions in line with the Paris Agreement goals. The targets set by OTSUKA CORPORATION were validated by the SBT initiative as 'science-based,' in line with the goals of limiting global warming to 1.5°C above pre-industrial levels (a level well below 2°C, or WB-2°C, for Scope 3).



Japan Climate Initiative

Japan Climate Initiative is a network of non-state actors standing at the forefront of the global challenge to achieve the 1.5°C goal. OTSUKA CORPORATION endorsed the initiative in 2021.



Kurumin certification

OTSUKA CORPORATION has been recognized by MHLW as a childcare supporting company that actively works to support a balance between work and child-rearing.



Editor's Postscript

Thank you for reading the OTSUKA CORPORATION Integrated Report 2024 to the end. This is the third edition of our Integrated Report. This Integrated Report was prepared by the editorial team with the aim of helping our stakeholders to gain a better understanding of OTSUKA CORPORATION.

One of the key themes of this edition is *people*. There are many people working at OTSUKA CORPORATION. What kind of intentions do the individual people who work here have? In the course of our interviews, we also have learned many things. We hope that this Integrated Report will help you learn more about OTSUKA CORPORATION.

Enhancement of dialogue with stakeholders is important for the growth of OTSUKA CORPORATION. We always welcome your candid feedback.



The Integrated Report editorial team of the President's Office

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