CUBE SYSTEM



Integrated Report

2024

October 2024

Amidst the ever-changing technology and society, we will continue to evolve vigorously toward a new stage and take on the challenge of creating new value.



Contribute to society with multifaceted thinking by leveraging technology and creativity in a constant quest for innovation.
Based on the values we have inherited since our founding, we will continue to grow further as a true best partner that continues to earn our customers' trust and meet their expectations.

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CUBE SYSTEM Identity

Since our establishment in 1972, we have been providing system solution services to corporate clients. Systems are an integral part of a company's business operations. Functioning in line with company objectives, they play a critical role in supporting business growth. Our business is to develop these important systems. Amidst the ever-changing technology and society, we have faced and overcome many challenges as a software company. As a result, we have become stronger and have achieved steady growth.
We have also sought to grow as employees, valuing the spirit of "contributing to society with multifaceted thinking by leveraging technology and creativity in a constant quest for innovation." We will continue to grow as a company together with our employees, and contribute to society beyond that through our commitment to our customers and the high quality of our services.

1972 Engineering group established to serve customers

We established our company in 1972 with the desire to serve our customers, and for more than 50 years since then, we have been engaged in the system solution business with a focus on inspiring our customers and providing them with high value-added services.

Management Philosophy

Companies thrive through the support of various people. Business must continue in order to ensure people's well-being, including our employees. The source of business continuation and development is profit, and profit is generated by customers.

Based on this philosophy, we go forward to create a globally acclaimed company.

Basic Policy

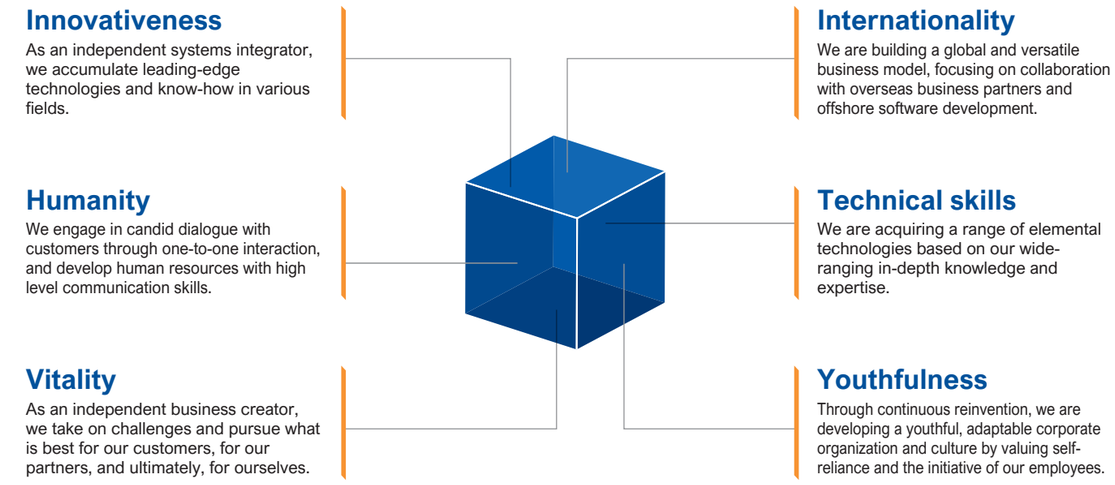
- Customer first
- Clear prioritization
- Company-wide sales-minded approach

Our Commitment in Our Name

Founded on the basic policy of placing Customer first, demonstrate advanced Brainpower (intelligence and knowledge) in developing solutions that create Excitement.

- **CU** CUstomer — Customer first
- **B** Brainpower — Intelligence and knowledge
- **E** Excitement — Create excitement
- **SYSTEM** — Synthesis of CUBE elements

This expresses our desire to "**grow through utilizing our multi-faceted versatility, symbolized by the shape of the CUBE (regular hexahedron)**."

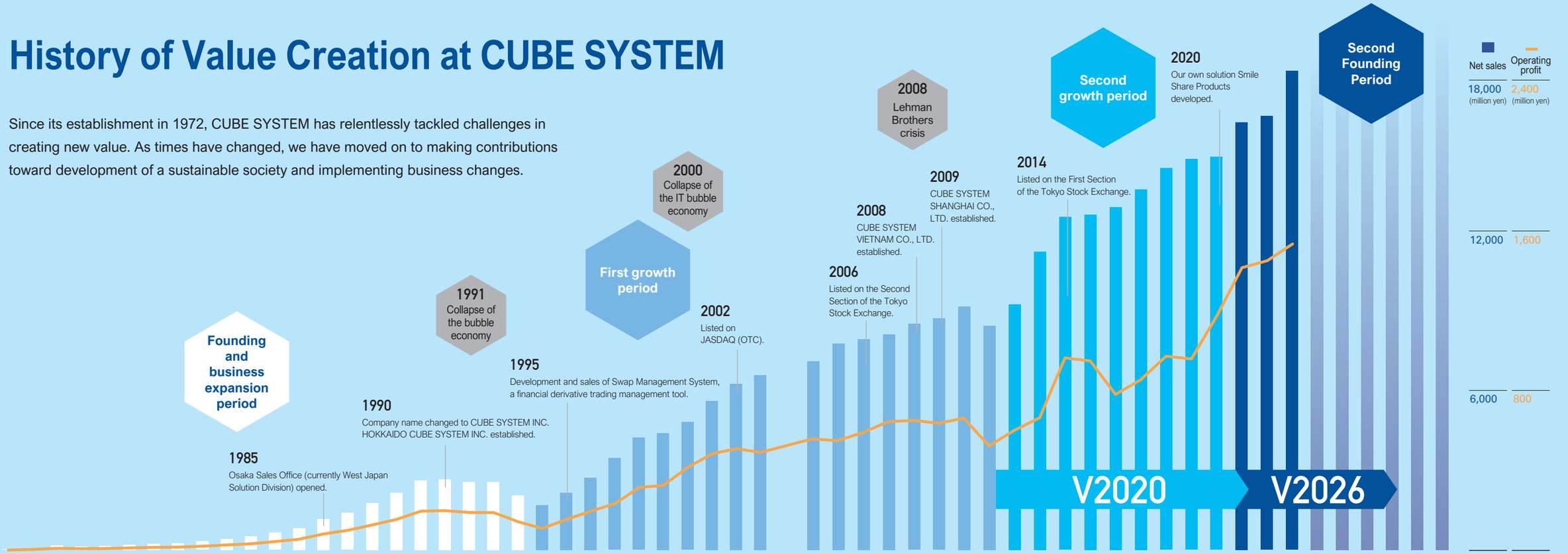


2024 Aiming for Second Founding

The Second Medium-Term Management Plan of our Medium- to Long-Term Management Plan, VISION 2026, began in FY2024. We regard this as our "Second Founding" and will strive to achieve dramatic growth by expanding both our technology and operations.

History of Value Creation at CUBE SYSTEM

Since its establishment in 1972, CUBE SYSTEM has relentlessly tackled challenges in creating new value. As times have changed, we have moved on to making contributions toward development of a sustainable society and implementing business changes.



IT industry's **situation**

- 1960- Introduction of mainframes for core business
- 1990- Popularization of personal computers
- 1995- Popularization of the Internet
- 2000- Expansion of electronic commerce
- 2005- Social media starts to trend
- 2010- Increasing performance of mobile devices
  Acceleration of data communication
- 2018- The first year of DX
- 2020- Shift from on-premise to cloud
- 2022- Use of generative AI

History of CUBE SYSTEM

Founding and business expansion period | V-shaped recovery period | First growth period | Second growth period | V2026 ▶ Second Founding Period

Founded as an independent software company to be a group of engineers for customers

CUBE SYSTEM started its business in 1972 with a strong belief in "providing solutions that strongly inspire our customers by applying our intelligence and knowledge to their advantage." When our company first began operations in the 1970s, the software industry was in its infancy. As a system integrator, we have been providing inspiring and value-added services through our system solution business amidst the ever-changing technology and society. Leveraging the know-how and information technology we have cultivated over more than 50 years of experience, we will continue to lead the transformation of business and society.

June 1984 Service agreement concluded with Fujitsu Limited.

Systems engineering service agreement was concluded with Fujitsu Limited. Systems integration service started under the agreement.

March 1988 A basic agreement on a system development service was concluded with Nomura Research Institute, Ltd.

A basic agreement on a system development service was concluded with Nomura Research Institute, Ltd. (NRI). Systems integration and system outsourcing services started under the agreement.

December 1990 HOKKAIDO CUBE SYSTEM INC. established.

HOKKAIDO CUBE SYSTEM INC. (currently a consolidated subsidiary) was established to strengthen business in the Tohoku and Hokkaido regions.

May 2005 Capital and business partnership agreement concluded with System Create Co., Ltd.

A capital and business partnership agreement was concluded with System Create Co., Ltd. to expand the company's business operations.

March 2008 CUBE SYSTEM VIETNAM CO., LTD. established.

CUBE SYSTEM VIETNAM CO., LTD. (currently a consolidated subsidiary) was established in Ho Chi Minh City, Socialist Republic of Vietnam.

July 2009 CUBE SHENYA SYSTEM SHANGHAI CO., LTD. (currently CUBE SYSTEM SHANGHAI CO., LTD.) established.

CUBE SHENYA SYSTEM SHANGHAI CO., LTD. (currently CUBE SYSTEM SHANGHAI CO., LTD., a consolidated subsidiary) was established in Shanghai City, People's Republic of China.

August 2018 Capital and business partnership agreement concluded with TRIPLEIZE CO., LTD.

A capital and business partnership agreement was concluded with TRIPLEIZE CO., LTD. for the development of new business and for increase in orders received utilizing AI, IoT and blockchain technologies.

November 2020 Partnership agreement concluded with Kinaxis Japan K.K.

A business partnership was formed with Kinaxis Japan K.K., the Japanese subsidiary of Kinaxis Inc. (TSX:KXS), to bolster support in the Asia-Pacific region.

February 2021 Obtained a patent for our touchless payment service that uses an AI-based facial recognition system provided through the DX business.

The patent was granted for "a series of input system/program and methods to make payments by recognizing the face of the user and a specific payment gesture."

December 2022 Capital and business partnership agreement concluded with Nomura Research Institute, Ltd.

Capital and business partnership agreement was concluded with Nomura Research Institute, Ltd., for reinforcement of long-term and continuous ties, expansion of business areas and improvement of the development organization and facilities.

June 2023 Received Oracle Japan Award 2023.

The company's contribution to the SI project utilizing the Oracle Cloud Infrastructure won recognition and led to an award as the Best Cloud Integrator Partner of the Year in the Oracle Japan Awards 2023.

Businesses of CUBE SYSTEM



In our Medium- to Long-Term Management Plan, VISION 2026, CUBE SYSTEM Group will define our services according to business models, business categories, and business styles, and will strengthen and promote each of these to accelerate the growth of our business.



Three Business Models

Digital Business

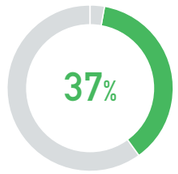
Net sales composition FY2024

This is a planning-type business originating from our company that utilizes digital technology. We aim to create new business through approaches that combine our unique know-how, such as consulting services, our own products, solutions originating from our company, and conversion into IP (intellectual property). Through DX, we support our customers' business reform.

Examples
- Implementing planning-type business originating from our company (PoC, etc.)
- Technical support and consulting for generative AI, blockchain, etc.

SI Business

Net sales composition FY2024

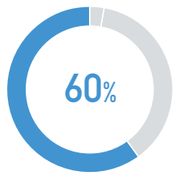


This service covers everything from system planning to design, development, and implementation. We provide a Lift & Shift model to migrate legacy environments to cloud environments (Lift) and to establish new methodologies (Shift), based on the theme of providing systems centered on multi-cloud and microservice projects and transforming to a new operational model. This model has achieved dramatic growth during the First Medium-Term Plan of V2026.

Examples
- Cloud migration (Lift & Shift)
- Providing solutions through co-creation with cloud vendors, etc.

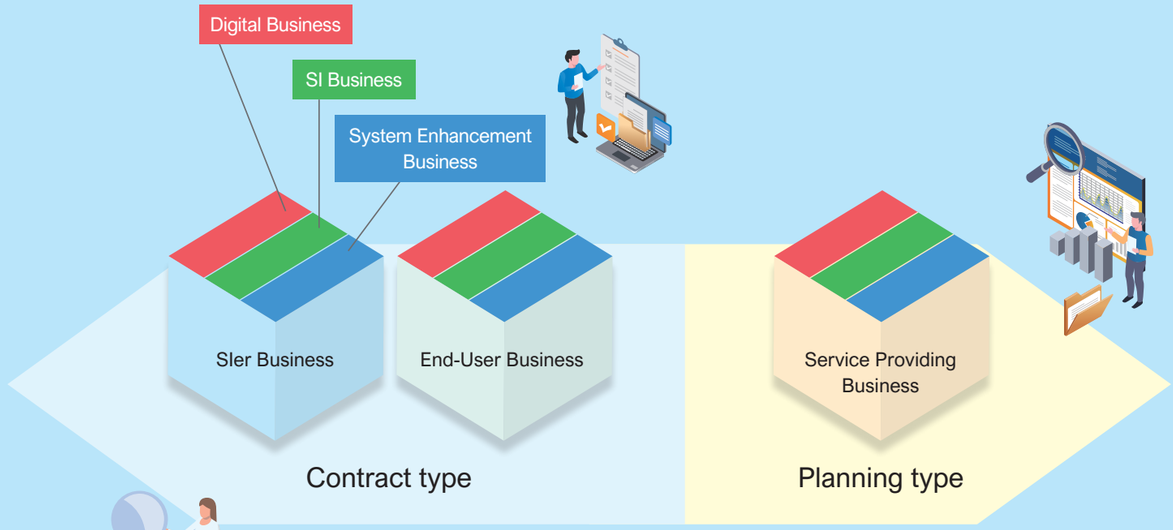
System Enhancement Business

Net sales composition FY2024



This is a business model in which we excel, providing services that improve the performance and quality of systems and increase their value in response to changes in the customer's business environment and the evolution of new technologies. We are making use of our accumulated know-how to work towards achieving high productivity and high profitability.

Examples
- System operation and maintenance
- Additional development services (during operation and maintenance), etc.





Two Business Categories

Contract type	A business that develops customized system solutions for different customers
Planning type	A business that secures revenue through sales and ASP/SaaS, etc., by utilizing software and IP (including know-how and technology) developed by our company

Three Business Styles



SIer Business	A form of providing contract development, etc. through collaboration with major SIers
End-User Business	A form of providing contract development, etc. through direct contracts with customers
Service Providing Business	A form of providing solution services through software developed in-house or in collaboration with other companies

Contribution to Society

In today's society, the systems we provide play vital roles and are indispensable components of our daily lives. Although we do not provide services directly to consumers, we are proud to say that the systems we have worked on support various aspects of society from behind the scenes.
We will continue working to make society more convenient and comfortable by providing systems that support companies in a wide range of industries and business categories.

Contributing to society through software engineering

Distribution

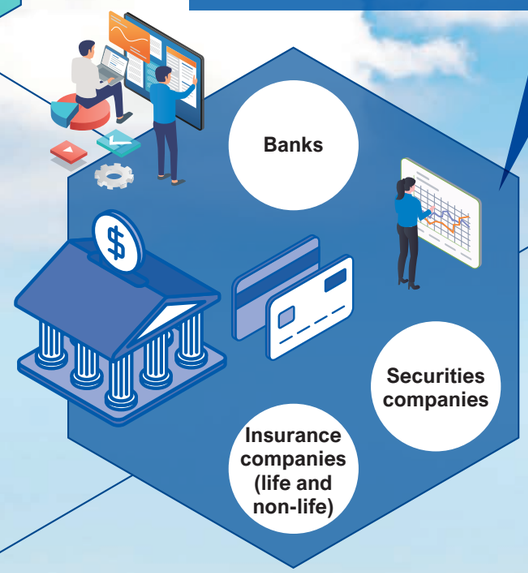
We develop, maintain, and operate systems that enable consumers to purchase the products they need at any time, focusing on product-related operations such as product management and ordering systems of a retailer, including supermarkets and mass merchandisers.



- GMS (General merchandise store)
- General trading companies
- Mass merchandisers
- Apparel companies

Finance

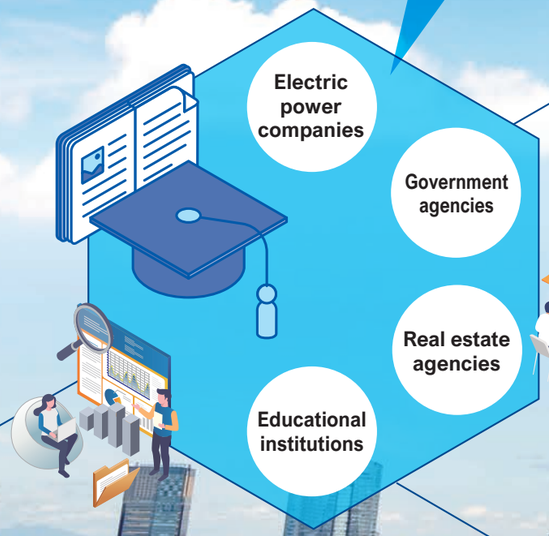
We develop, maintain, and operate systems, such as online banking, securities trading systems, and insurance loss adjustment systems, that provide services users can use safely and securely with a sense of convenience.



- Banks
- Securities companies
- Insurance companies (life and non-life)

Other

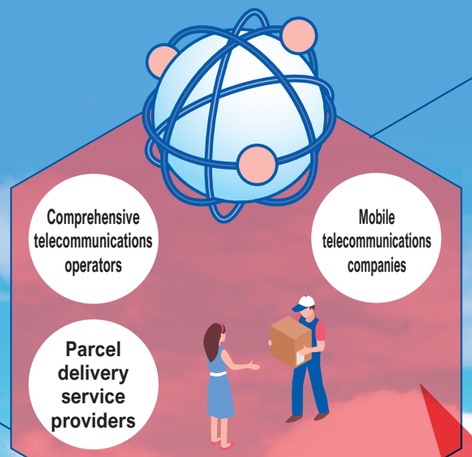
We develop, maintain, and operate optimal systems that meet the characteristics and requirements of each organization, such as service systems that visualize electric power for electric power companies, and optimal applications for government agencies and educational institutions.



- Electric power companies
- Government agencies
- Real estate agencies
- Educational institutions

Transportation and telecommunication

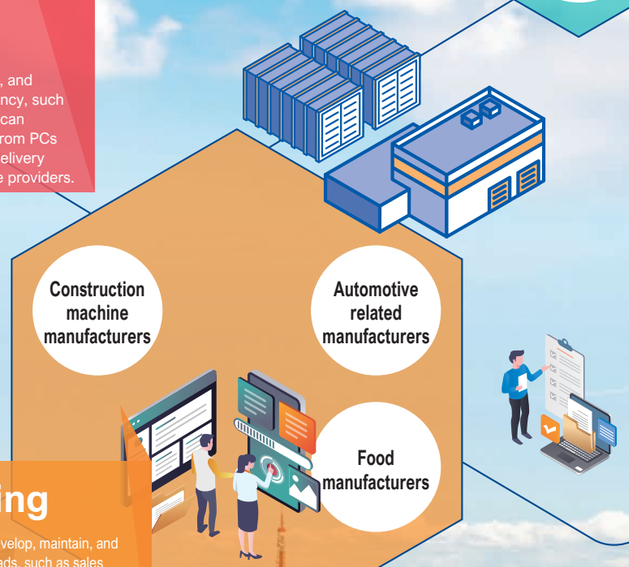
In the mobile phone business, we develop, maintain, and operate systems that contribute to safety and efficiency, such as customer information management systems that can reliably handle large numbers of accesses arriving from PCs and smartphones, and delivery systems that solve delivery issues such as re-delivery for parcel delivery service providers.



- Comprehensive telecommunications operators
- Mobile telecommunications companies
- Parcel delivery service providers

Manufacturing

In the manufacturing industry, we develop, maintain, and operate systems that reduce workloads, such as sales management systems that provide a one-stop shop for everything from quoting to ordering, and production management systems that support a wide range of areas, including internal systems and infrastructure management.



- Construction machine manufacturers
- Automotive related manufacturers
- Food manufacturers

Message from the President



中西雅洋

Masahiro Nakanishi

Representative Director
President and COO

We will undergo a Second Founding through management centered on human resources and promote a business model for dramatic growth

Enhancing human resource autonomy to refine corporate competitiveness

Integrated Report 2024 is the fourth edition we have published in the hope that our stakeholders will gain a better understanding of CUBE SYSTEM's business performance and growth strategy, as well as the human resources and work ethic that we have nurtured. These are the true driving forces behind our sustainable growth.

Our corporate culture is built on a foundation of human resources who have a strong sense of responsibility and work with integrity and their pursuit of our intertwined basic management policies: Customer First, Clear Prioritization, and Company-wide Sales-minded Approach.

Our Customer First policy does not mean to simply respond to the requests of our contract customers or the work we have been contracted to do, but the aim of providing true customer-first service that satisfies our customers in all aspects of the technology and IT services we provide.

Through Clear Prioritization, we will concentrate our management resources on making our vision for the future a reality and focus on what needs to be done now when making decisions regarding business execution.

Having a Company-wide Sales-minded Approach means that throughout our daily operations and sales activities, all employees interact with customers and work with a sales mindset, taking QCD (quality, cost, and delivery) into consideration.

In order to hone CUBE SYSTEM's strengths based on these principles, we encourage our employees to enhance their autonomy, or in other words, their awareness of the need to think and act on their own initiative. We also instruct our front-line employees to have a representative mindset. Each of us represents the company and its business and fulfills our responsibilities in the face of our stakeholders, which further enhances their trust in our company.

As we nurture a spirit of communication and mutual respect within the company, I have high expectations that our employees will make significant contributions to our business. My hope is to be a company where employees respect one another's positions and have robust discussions to overcome difficult challenges and achieve big goals.

Pursuing Solid Fundamentals for Dramatic Growth

CUBE SYSTEM is pursuing a growth strategy for the future under its Medium- to Long-Term Management Plan VISION 2026 (hereinafter, "V2026"), which began in FY2021. During the three-year period from FY2021 to FY2023, we worked to strengthen our management foundation based on the First Medium-Term Management Plan (hereinafter, "First Medium-Term Plan").

V2026 envisions three business models: Digital Business, SI Business, and System Enhancement Business, and we feel that we were able to steadily promote each business model in the First Medium-Term Plan.

Digital Business is a planning-type business originating from CUBE SYSTEM that utilizes digital technology. We aimed to improve the brand value of CUBE SYSTEM by developing consulting services that combine our unique know-how, our own products, solutions originating from our company, and the approach of conversion into IP (intellectual property). In the SI Business, which covers everything from system planning to design, development,



We have positioned the Second Medium-Term Management Plan as the Second Founding, and we aim to achieve dramatic growth by pursuing solid fundamentals and putting in place the foundations for management and business.

and implementation, we expanded the scale of the business, focusing on the shift of on-premise systems to cloud-native and microservice projects. In the System Enhancement Business, which aims to improve the functionality, performance, and quality of customers' systems in response to changes in the business environment and new technologies, we pursued high productivity and profitability.

Of the three business models, the Digital Business and SI Business were able to operate in an environment of extremely strong market demand, driven by the push to expand DX and cloud computing. The System Enhancement Business did not progress as planned, despite firm efforts to implement productivity improvement measures and optimize the allocation of human resources, resulting in a challenging rollout. To sum up the First Medium-Term Plan, in terms of business, we aggressively took on challenges in new areas, applied a microservice approach to development projects that had never been done before, and collaborated with the entire CUBE SYSTEM Group to create a new way to offer services. However, initial sales targets were not met, and quality issues became apparent. For sustainable growth, we feel it is necessary to strengthen our development organization and facilities to be able to continue to receive orders in a rapid and consistent manner in response to customer requests, and to further improve quality.

In the long term, our goal is to achieve a 4:4:2 business portfolio composition in the three business models. The System Enhancement Business as a stable business accounts for 40% of overall net sales, the SI Business as a business with great growth potential accounts for 40%, and the Digital Business as a business rich in highly innovative technology accounts for 20%. If we can achieve this business balance, I believe we will see a new landscape as a company.

Based on the foundation established in the First Medium-Term Plan, CUBE SYSTEM is currently implementing the Second Medium-Term Management Plan (FY2024 to FY2026, hereinafter, "Second Medium-Term Plan"), which covers the latter three years of V2026.

While continuing to develop our existing businesses, we view the next three years as our Second Founding Period and will take on the challenge of entering growth sectors and areas where we can contribute to society. To clarify our goals in this direction, we set the basic policy of the Second Medium-Term Plan as "Second Founding: Solid Fundamentals for Dramatic Growth." We aim to achieve dramatic growth by boldly continuing to take on challenges while remembering the basics, which include valuing quality of service and the relationships of trust we have built with our customers since our founding.

In the Second Medium-Term Plan, we have established new business styles for our contract- and planning-type businesses. Contract-type refers to contract development of software from major SIers and their information subsidiaries. Planning-type means provision of solutions through our products or by utilizing existing services such as SaaS and PaaS. We will work to achieve sustainable sales and profits by combining know-how and IP obtained from both contract- and planning-type businesses to create synergies.

A key measure for achieving the Second Medium-Term Plan is to strengthen our business and management foundations. For our business foundation, we will focus on promoting collaboration with major SIers and solution vendors, reinforcing our development organization and facilities by strengthening cooperation with domestic and overseas subsidiaries and partners, enhancing quality which is the lifeblood of manufacturing, and investing in research to create new businesses. We have identified three aspects of our management foundation that we will work to strengthen: enhancement of human capital, internal control and governance, and corporate culture reform.

V2026 also sets promotion of wellbeing management as an important goal. We consider it an important management issue to ensure that our employees are both mentally and physically healthy and that they find their work fulfilling. We will strive for sustainable growth and further enhancement of corporate value by creating a motivating work environment for our employees and through our newly organized business style.

Aiming to increase corporate value by promoting the four material issues

CUBE SYSTEM has identified and is promoting four material issues (materiality) to achieve sustainable growth and increase corporate value. Three of them are directly related to the business and closely related to corporate growth.

The first of these material issues is creating the future of society through our DX business. This is an initiative to create social value through the Digital Business, and has already begun to be implemented as Smile Share Products that originate from our company. Under the theme of "Using digital technology to make employees smile," this product is a tool to improve engagement by visualizing communication using the internal social media platform and expressing gratitude in the form of virtual currency.

The second is offering safe and secure systems using cloud technology. Currently, when companies are planning to restructure their business systems, use of cloud services has become the preferred method. We are responsible for meeting their needs by using cloud technology to create high-quality systems. We place particular emphasis on Oracle Cloud Infrastructure, which we have been using for many years, and accumulate even more knowledge and experience to provide the highest level of service in this area of our expertise.

The third material issue is contributing to customer systems through software engineering. We have worked on many large projects in the System Enhancement Business in which we improve our customers' systems. We believe that by ensuring the successful execution of these projects, we are making a significant contribution both to our customers, by increasing their productivity and other values, and to the consumers and society our customers serve.

The fourth material issue, solving social issues through corporate activities such as strengthening and improving the foundation for value creation, expresses CUBE SYSTEM's strong commitment to value creation in non-financial areas. We will contribute to solving social issues by addressing themes such as promoting diversity, creating a fulfilling workplace, people development, strengthening corporate governance, and addressing climate change.

Creating more value through management focusing on human capital

In human capital management, which is the foundation for value creation, we are promoting both quantitative expansion and qualitative improvement. We believe that it is necessary not only to provide employees with opportunities to improve their abilities, and for each of them to seize these opportunities to independently improve their abilities and grow, but also to implement initiatives to improve their motivation. No matter how capable a person is, they cannot produce results if their motivation is low. The key to motivation is engagement in the workplace. We aim to create a company with a high level of engagement by providing economic incentives based on performance

and fostering a culture of mutual respect among members.

Promoting diversity is another important issue related to human capital. We want to be a company that is eager to grow. In order for this to happen, we will not only enhance our development scheme, but also provide work opportunities that will allow them to experience growth, be highly motivated, and perform their duties with appropriate quantity and quality. To better empower women, we have set a goal of increasing the ratio of female employees in the leadership ranks, who are candidates for management positions, with a view to the future. We also have a policy of proactively accepting people with disabilities and encouraging them to play active roles in the company. We want them to be active in a wide range of areas as system engineers, not only in auxiliary work but also, for example, in system design, programming, system testing, and project management. Providing appropriate education and growth opportunities is essential for a diverse workforce. It will be of great value if we can create an environment and system in which every person can play an active role and share the knowledge with society.

Our personnel are expected to be familiar with both IT technology and our customers' business processes, both of which are necessary to provide the best systems for each customer. In addition to end-user technology, system platform technology, and production technology, we must embrace other new technology, but our true strength lies in our ability to apply technology to our customers' business processes in a practical way. As new technologies develop, we will adopt them into our systems after carefully considering them and making every effort to ensure their reliability, allowing us to provide novel services that contribute to our customers' business innovation and solutions to social issues.

To our stakeholders

CUBE SYSTEM values the return of profits to our shareholders. Over the past several years, we have increased our dividend payout ratio to 30%, 40%, and 50%. This is due to the fact that our business has become capable of achieving a certain level of growth and profitability. We will continue to improve corporate value by allocating the accumulated cash in a balanced manner to investments in growth and shareholder returns.

We are currently trying to accomplish our Second Founding through the execution of the Second Medium-Term Plan and evolve into a new CUBE SYSTEM. However, no matter what direction our growth takes, our philosophy of "being a company that continues to contribute to society through sustainability management" will remain fixed. We will continue to take on the challenge of creating value while maintaining a high awareness of sustainability. We want to be a company that not only accumulates experience by completing each project, but also captures the value we create in each project, such as intellectual property (IP), and leverages it for productivity improvements and as the seeds of new business. We appreciate your continuing support as we build on the strength of our employees and work to increase our corporate value.



We will develop people and leverage their strengths as our competitive force, applying the latest technologies for our customers' systems and contributing to their business innovation, taking into account these technologies' benefits, challenges, and limitations.

Sustainability Management Basic Policy

CUBE SYSTEM Group understands the responsibilities and roles it must fulfill for the development of society and works on improving its corporate value and resolving social issues with the business and community activities of each and every one of its employees.

Sound business management
- Achieve highly effective, transparent and reliable business management by sharing its empathy, thoughts and co-creation ideas with all of its stakeholders.

Compliance
- Execute its business activities with transparency, equity and integrity in compliance with social norms.

Respect for human rights
- Support international norms on human rights and respect human rights in all its business activities.

Fair trade
- Reinforce its trust with business partners through free and equitable competition and fair trade.

Sustainable services
- Contribute to the growth of our clients' businesses and maximize client value.
- Provide services with originality, innovativeness and high added value.

Workplace that nurtures work fulfillment
- Build and develop workplaces where diverse employees are able to work with a sense of fulfillment, as well as sound mental and physical health, and where each employee can exert their own distinctive characteristics and capabilities to the full extent.

Contribution to local communities and society
- Contribute to the development of lively and comfortable local communities and societies.

Environmental preservation
- Practice environmentally friendly management through business activities to contribute to reducing the environmental impact and developing a sustainable society.

Key Points of the Integrated Report 2024

Explain the story of sustainable value creation with concrete examples

Communicate multiple aspects of the business through business models and value creation stories

Enhancement of non-financial information and six capitals by linking them to business

Editorial Policy

CUBE SYSTEM believes in the importance of accurate, prompt and voluntary disclosure of information regarding its ESG-related initiatives in its business activities. Founded on this policy, our financial data and non-financial data have been organized and systematized into an integrated report since FY2021.

- Organizations covered: CUBE SYSTEM INC., and its consolidated subsidiaries in Japan and overseas
- Period covered: FY2023 (April 2023–March 2024)
  * Some information not related to the fiscal term may be included in the report.
- Date of publication: October 2024
- Frequency of publication: Annual
- Information disclosure policy: The Group will disclose information accurately, promptly and voluntarily to build long-term relationships of trust with our shareholders, investors, and other stakeholders.

Reference guidelines

- International Integrated Reporting Framework, International Integrated Reporting Council (IIRC)
- Guidance for Collaborative Value Creation, Ministry of Economy, Trade and Industry (METI)
- GRI Standards, Global Reporting Initiative (GRI)

Important notes regarding outlooks

Business plans, outlooks and strategies in this Integrated Report are founded on decision-making and assumptions made based on the data available at the date of publication. Please note that actual business performance may deviate significantly from outlooks as a result of changing circumstances.

Publication Department

Business Planning Department

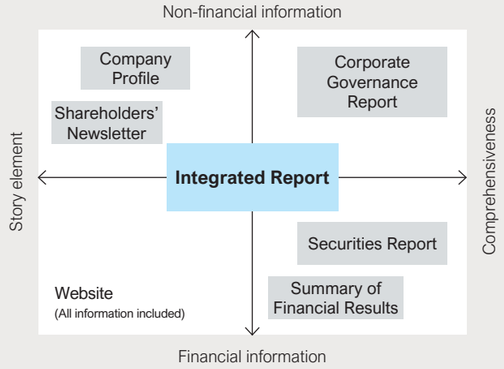
For further inquiries, contact

https://www.cubesystem.co.jp/en/contact/

IR Data

https://www.cubesystem.co.jp/en/ir/

Information disclosure system



Strengths of CUBE SYSTEM

We provide value to society through system solutions that leverage the strengths of our organization, acquired through the implementation of our Management Philosophy and Basic Policy, and the skills developed by each of our employees.

Individual strength

Software Engineering Skills

- Belief in quality improvement, cost and delivery deadlines backed by technical skills
- System development utilizing our own standard development framework p. 47
- Offering services based on our knowledge and technical skills accumulated in various industries
- Know-how concerning system operation and maintenance to improve together with customers

Strengths: Knowledge of maintenance and operation (system enhancement), DB performance design, etc.



Technical Skills

- Advanced technical support structure formed by a team of experts
- Diverse career fields p. 38
- Active investment in education to improve employees' technical skills p. 40
- Solving customer problems utilizing advanced technical skills

Strengths: Oracle, AWS, Java, Python, Blockchain, etc.



Self-reliant business persons

- Diverse human resources that possess advanced skills (strengths)
- Decision making with understanding each employee's duty

Execution Skills

- Perseverance to complete a job examining all possibilities in difficult situations
- Relentless pursuance (passion and belief) to satisfy customers, and create profit and value
- Team skills to work toward a single goal

Problem-Solving Skills

- Engineering know-how and skills with our customers' businesses accumulated over the years p. 49
- System engineers themselves become the customer representatives and directly approach the customer's issues
- Company-wide support transcending divisional boundaries toward difficult problems



Organizational strength



Corporate culture based on the Basic Policy

Customer first	We take our customers seriously, tackle everything with honesty, and never give up
Clear prioritization	The ability to act upon considering what is most important and effective
Company-wide sales-minded approach	The sales ability of on-site system engineers to negotiate with customers with a business sense



Synthesis of "self-reliant business persons" solves customer problems to build a better society



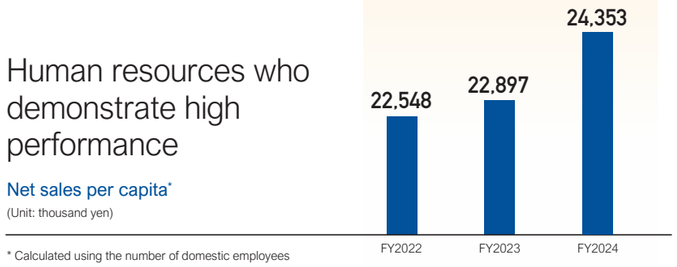
Strengthening competitive advantage through organizational and individual strengths

As a result of exerting strengths

Human resources who demonstrate high performance

Net sales per capita*

(Unit: thousand yen)

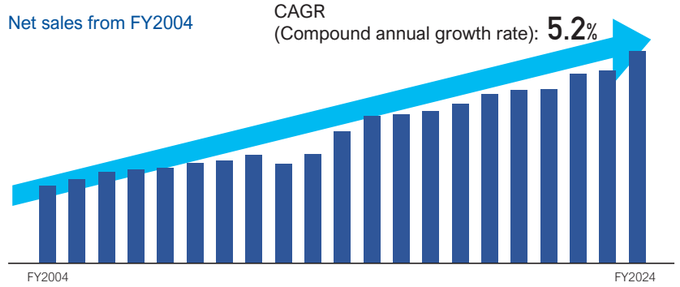


* Calculated using the number of domestic employees

Organizational knowledge supported by abundant work record over many years in the system enhancement service

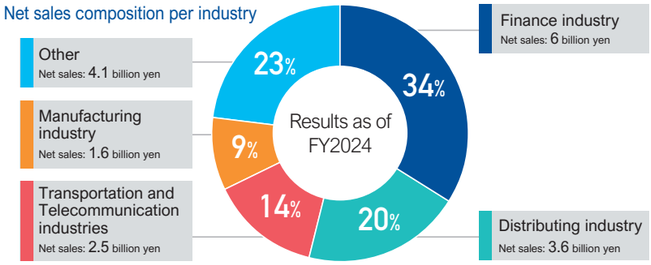
Net sales from FY2004

CAGR (Compound annual growth rate): 5.2%



Customer base spanning various industries

Net sales composition per industry



Robust customer base founded on long-term mutual trust

More than 15 years of trading experience:	More than 10 years of trading experience:	More than 5 years of trading experience:
18 companies	11 companies	14 companies

Value Creation Model

Each of our employees contributes to society through our business activities with the aim of increasing our corporate value.
The opinions from our stakeholders are reflected in our business management and we will disseminate our value creation model to achieve sustainable growth to resolve social issues and contribute to SDGs.

INPUT

Social Issues

- Global warming
- Technological innovation
- Cyber security
- Falling birthrate and aging population (decrease of working-age population)
- IT literacy
- Deterioration of the social infrastructure
- Rise in natural disasters and terrorist acts

Important issues (materiality)

p. 29

1 **Creating the future of society through our DX business**

2 **Offering safe and secure systems using cloud technology**

3 **Contributing to client systems through software engineering**

4 **Solving social issues through business activities, such as reinforcement and improvement of value creation platforms**

Human Capital

p. 37

Total number of employees (consolidated)
886

Intellectual Capital

p. 45

Growth investment: 23 million yen
Business partnerships: 3

Manufacturing Capital

p. 47

Domestic offices: 4
Affiliated companies: 3

Social and Relationship Capital

p. 49

Length of continuous business transactions (end users)
More than 15 years: 18 companies
More than 10 years: 11 companies

Natural Capital

p. 51

Energy consumption
679,757 kWh

Financial Capital

p. 53

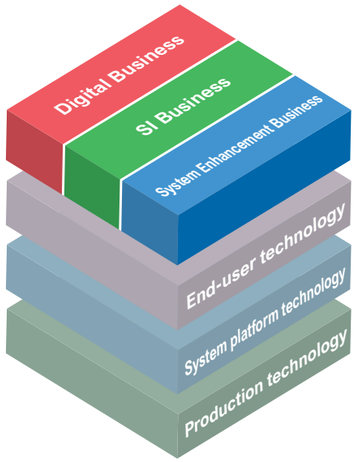
Total net assets: 10.1 billion yen

BUSINESS ACTIVITY

V2026 Business Plan

We offer optimal services through our software engineering capabilities, with digital, SI, and system enhancement as our business models.
We provide high-added-value services using the most appropriate technologies and methods based on our customers' issues and business models.

All of our employees will contribute to society through our business activities to increase our corporate value.



Management foundation

- **Human resources** (Recruitment and training)
- **Quality**
- **Development organization and facilities**

Corporate and Employee Code of Conduct

- make CHANCE from CHANGE
- Communication & Mutual Respect

Value provided to stakeholders

p. 27

Employees



Customers

Shareholders and investors



Business partners



Society

OUTCOME

Creation of Financial Value

p. 36

<Business>
Net sales ..... **18.0 billion yen**
Operating margin **8.5%**

<Productivity>
Net sales per capita ..... **24 million yen**

<Capital Efficiency>
ROE **10.8%**

<Returns to Shareholders>
Dividend payout ratio **49.7%**
DOE **5.4%**

Creation of Non-Financial Value

p. 36

<Empowerment of Women>
Ratio of female employees in manager posts **10.3%**

<Gender Gap in Wages>
All workers **85.7%**

<Work-life Balance>
Overtime hours (monthly average) ... **33.6 h**
Ratio of annual paid leave taken ... **71.3%**

<Human Resources Development>
Days of education/training per person (including self-development programs) ..... **5.5 MD**

<Environment>
GHG emissions targets
Scope 1, 2 ..... **237 t-CO_2**
Scope 3 ..... **5,398 t-CO_2**

Contribution to SDGs



Solving social issues through software engineering

Realizing an affluent life for stakeholders

CUBE SYSTEM's Value Creation Story

For over half a century, we have been proposing systems that bring new value to life and society.
The systems we provide are playing an active role in people's daily lives.

CASE 1 Building an AI-powered automated ordering system for a major retailer p. 22

CASE 2 Renewal of a personal information management system for a financial firm p. 23

CASE 3 Core system development for a major telecommunications carrier p. 24



CASE 1

Digital Business

Building an AI-powered automated ordering system for a major retailer

Social issues and needs

- Reduction in labor population
- Operating an efficient retail business

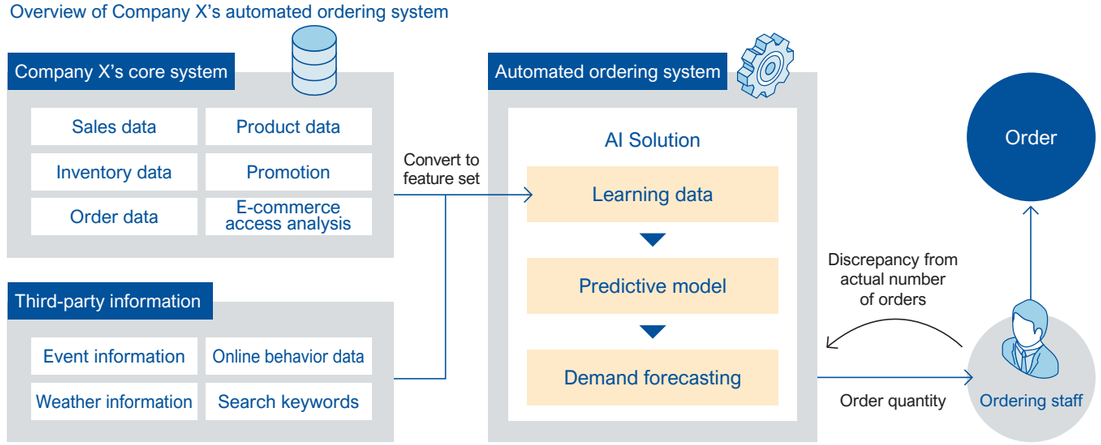
Values provided to society

- Increased on-site productivity
- Improved employee satisfaction and improved customer service

As the decline in the working population becomes a social issue, retailers are being called upon to operate their businesses more efficiently. Major retailer X's supermarkets have introduced an advanced automated ordering system that uses AI technology. AI predicts demand for each store and product and calculates the number of orders, taking into account information such as product inventory and sales, weather forecasts, local event schedules, and search trends. This initiative is designed to reduce the burden on those in charge of placing orders, increase on-site productivity, improve employee satisfaction, and enhance customer service. The system is used to ensure that customers who visit the store can get the products they want, when they want them, at an affordable price.

By using a general-purpose AI solution service, the AI engine that performs demand forecasting at the core of the system was developed quickly and at low cost, without the need for data analysts or other specialists to assist in its development. A general-purpose AI engine cannot perform accurate demand forecasts using only the data loaded during system development. As we interview stores that have introduced the system and respond to inquiries that arise during the maintenance process, we incorporate anything that can be systematized. By maintaining the system in tandem with our customers' retail operations on a daily basis, we have been able to improve not only the accuracy of our predictions but also the system itself. This project was undertaken while learning about new technologies together with our customers. In the development of new functions during the operation phase, we have worked with our customers to discuss with end users and define requirements. Through these processes, we have built a relationship of trust, and now the process of modifying and implementing functions is almost entirely entrusted to us.

Overview of Company X's automated ordering system



Human Capital/ Intellectual Capital

- Ability to catch up with cutting-edge technology, development capabilities, and maintenance operations that are in line with end-user business needs
- AI learning support

Social and Relationship Capital

- Trusted relationships with major system integrators

CASE 2

SI Business

Renewal of a personal information management system for a financial firm

Social issues and needs

- Upgrading to robust management systems to protect personal information and ensure information security

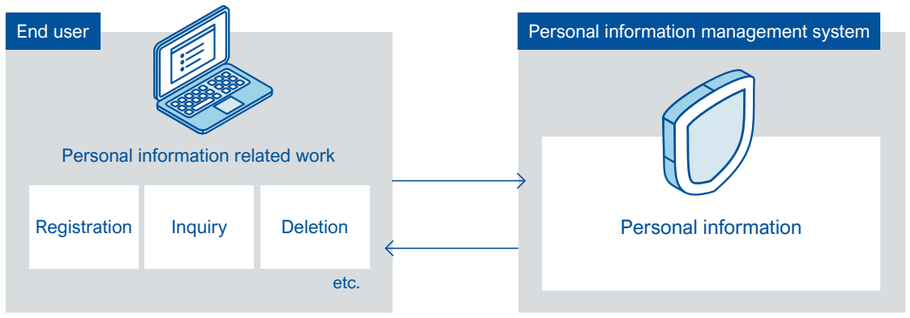
Values provided to society

- Offering safe and secure social infrastructure services

As the digitization of all kinds of information progresses, managing information in a safe and secure environment has become an important issue for society. A personal information management system aggregates and manages vast amounts of personal information, and thus it requires privacy protection and information security at the same level as other core systems of financial firms. Since the system handles important information, it must be developed domestically. Leveraging our company's proven track record, we are developing the system jointly with a major system integrator.

During the development phase, the customer requested several specification changes due to external factors and other matters, and the project also demanded creative approaches in management. We have also provided optimal support to our customers by using the latest methods to respond to their unique frameworks. As a result, related projects have been launched and are expanding.

Overview of the personal information management system



Human Capital/ Intellectual Capital

- Ability to develop social infrastructure services that meet the same high management standards as other core systems of financial firms
- Introduction of the latest techniques

Social and Relationship Capital

- A track record with major system integrators

CASE 3

System Enhancement Business

Core system development for a major telecommunications carrier

Social issues and needs

- Reducing the risk of large-scale communication failures and ensuring a stable system infrastructure

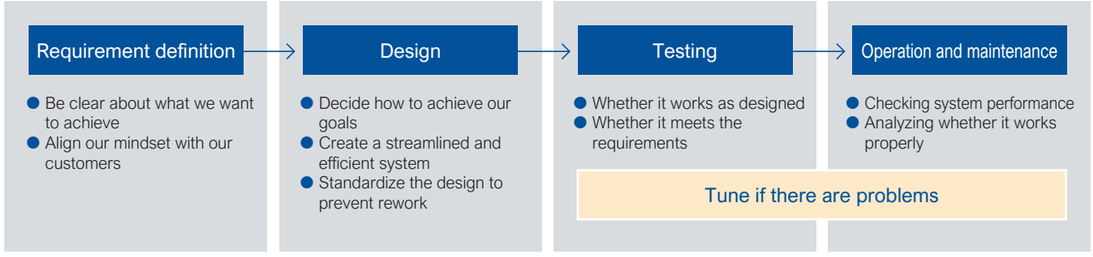
Values provided to society

- Providing a stable social communications infrastructure

With the spread of the Internet in modern society, stable communication has become an essential element. In such an environment, an occurrence of a large-scale communications outage could have serious effects on society. For this reason, major telecommunications carriers are required to ensure a stable system infrastructure. We have been involved in the enhancement of a huge system for major telecommunications carrier X for many years and have supported its stable operation.

Since around 1997, we have been receiving orders under the umbrella of a major system integrator for general system performance-related tasks such as performance management, tuning, and performance verification, with a focus on database management for Company X's core system, and the project has been expanding ever since. When updating the database to the latest version, we have promoted infrastructure renewal operations, such as catching up with the latest technologies, and have achieved the expected effects, such as reduced processing time. In situations where multiple projects are simultaneously progressing, we also play a key role as a project manager to control the projects. Additionally, we also offer a service unique to our company: performance tuning, which identifies and improves problems before the performance testing process.

Key points in each development phase and performance tuning



Human Capital/ Intellectual Capital

- Project management skills to control multiple core systems projects
- Ability to catch up with cutting-edge technology

Social and Relationship Capital

- Trusted by the major telecommunications carrier thanks to a quarter century of experience

Response to Major Risks and Opportunities

To identify important issues (materiality), we analyzed and evaluated our group's risks and opportunities posed by changes in the external environment. We continue to assess risks and opportunities in order to reflect them on our efforts concerning the important issues (materiality) so that they can lead to creation of new profitable business possibilities.

External factors	Opportunities	Risks	CUBE SYSTEM's materiality	Related efforts
Global warming	● Increase in demand for energy-related services ● Shift to more power-efficient cloud systems	● Introduction of carbon tax ● Communication issues due to increase in remote working ● Decrease in evaluation from customers and investors for being unresponsive to climate change ● Extreme weather (damage from storms) ● Rise in average temperatures	1 Creating the future of society through our DX business	● Consideration for the global environment…… p. 51 ● Endorsement of the TCFD …… p. 51
Technological innovation	● Increasing need for DX technology ● Creating new business models	● Lowering competence from delaying adoption of new technologies ● Occurrence of a project creating a budget deficit ● Delay in delivery ● Failure in system operations ● Insufficient number of experts ● Unpredictable security incidents	1 Creating the future of society through our DX business 2 Offering safe and secure systems using cloud technology	● Implementing quality management …… p. 48 ● Reinforcing information security …… p. 61 ● Investment in research and development …… p. 45 ● Promoting measures to reinforce collaborations with customers …… p. 49
Cyber security	● Increasing need for information security services	● Information leakage due to cyberattacks, etc. ● Human-made security incidents	2 Offering safe and secure systems using cloud technology	● Reinforcing information security …… p. 61
Falling birthrate and aging population (decrease of working-age population)	● Active participation of diverse human resources ● Improving human resources system ● Active participation of senior-age employees	● Insufficient IT human resources ● Brain drain (IT engineers) ● Productivity decrease due to lack of human resources ● Increase in costs to secure human resources	3 Contributing to client systems through software engineering	● Setting career fields that clarify directions and goals for employees to aim at …… p. 38 ● Building a new human resources system …… p. 37 ● Promoting human resources development …… p. 39
IT literacy	● Creating competent services utilizing IT experts ● Securing diverse human resources ● Creating IT education opportunities in society	● Insufficient IT human resources ● Insufficient development of IT experts ● Difficulty in offering services due to lack of human resources	3 Contributing to client systems through software engineering	● Setting career fields that clarify directions and goals for employees to aim at …… p. 38 ● Building a new human resources system …… p. 37 ● Promoting human resources development …… p. 39
Deterioration of the social infrastructure	● Increasing need for renewal of existing systems ● Development of smart cities utilizing DX technologies	● Failure or suspension of systems provided by us ● Unstable operations of systems	4 Solving social issues through business activities, such as reinforcement and improvement of value creation platforms	● Implementing quality management …… p. 48
Rise in natural disasters and terrorist acts	● Increasing need for transfer to the cloud environment ● Increasing need for multiple production sites	● Suspension of service due to physical damage to production sites ● Decrease in safety and productivity of employees ● Decrease in customers due to business activity suspension	4 Solving social issues through business activities, such as reinforcement and improvement of value creation platforms	● Reinforcing risk management …… p. 59 ● Enhancing production sites …… p. 48 ● Utilizing system enhancement services and offshore …… p. 48

Relationship with Stakeholders

We are engaged with a variety of stakeholders through our business. We place importance on offering appropriate values to our stakeholders to achieve the sustainable growth of our company.

Stakeholders	Values to offer	Major efforts
Employees Our employees and their families	● Offering opportunities for self-development ● Corporate culture in which the company and individuals can share affluence ● Better workplace environment for employees ● Human resources development ● Health and productivity management ● Diverse workstyles ● Gratitude to employees' families	● Promoting human resources development ..... p. 38 ● Promoting the empowerment of women ..... p. 41 ● Establishing a Business Support Team ..... p. 41 ● Health and productivity management ..... p. 42 ● Introducing a new human resources system ..... p. 37
Customers All clients to whom we offer system solution services	● High-quality services ● Promoting DX business ● Improvement of customer satisfaction ● Building well-organized development organization and facilities ● Advanced technical skills ● Maintaining stable management foundation	● Promoting quality management..... p. 47 ● Utilizing F@CE-DX ..... p. 48 ● Promoting research and development ..... p. 46 ● System enhancement services and offshore utilization ... p. 48 ● Developing professional IT human resources ..... p. 39 ● Customer satisfaction survey ..... p. 49
Shareholders and investors Shareholders, and individual and institutional investors	● Maintenance and improvement of sound and secure financial structure ● Stable dividends ● Sustainable growth ● Sufficient dialogue opportunities	● Establishing financial policy ..... p. 53 ● Implementing dividend policy ..... p. 54 ● IR activities • Financial results briefings We hold financial results briefings for institutional investors at the end of each second quarter and at the year-end settlement. • IR meetings We hold a one-on-one IR meeting when requested by institutional investors. • Seminars for individual investors In FY2023, we participated in a webinar for individual investors on Nomura Investor Relations coverage in September 2023 and produced and released a quick IR video for individual investors through Nikko Investor Relations in March 2024. We explained our business details, strengths, growth strategy, shareholder returns, etc.
Business partners All partner companies who work together on our projects	● Stable orders ● Partnerships in advanced projects ● Development of partner companies' employees ● Maintaining healthy relationships	● Business strategy briefing for business partners..... p. 50 ● Information sharing sessions Hosting technology study sessions for business partners ● Partner hotline established We established a partner hotline for business partners to report any doubts concerning business conduct. Upon receiving a report, the Partner Promotion Office conducts a factual investigation involving the relevant parties. If an issue is confirmed, it is passed on to the Management Committee and any necessary measures are taken.
Society An IT society that utilizes our system solution services, etc.	● Contribution to community activities ● Developing next-generation human resources ● Addressing environmental problems and climate change ● Offering safe and secure systems ● Robust security	● Promoting quality management..... p. 47 ● Reinforcing information security ..... p. 61 ● Developing professional IT human resources ..... p. 39 ● Consideration for the global environment ..... p. 51 ● Endorsement of the TCFD ..... p. 51 ● Developing next generation human resources Since 2016, we have been sponsoring endowed courses in Toyo University. Our lectures are designed to develop people who can solve issues related to "communities, information, and energy," and contribute to globalization and local communities. We also work to develop the next generation of IT professionals by offering a One-day Internship program to experience the role of a system engineer. ● Contribution to local communities Endorsing corporate efforts to contribute to communities, we participate in community clean-ups and offer workplace experience. In February 2024, we offered cooperation in "Company Information Session and On-site Work Experience" held by a local junior high school where our system engineers explained their work.

Important Issues to Be Addressed by Sustainability Management

To promote sustainability management, we identified the important issues (materiality) on which we need to focus. By promoting our business to resolve these social issues and meet customer needs, we plan to increase our corporate value and contribute to building a sustainable society.

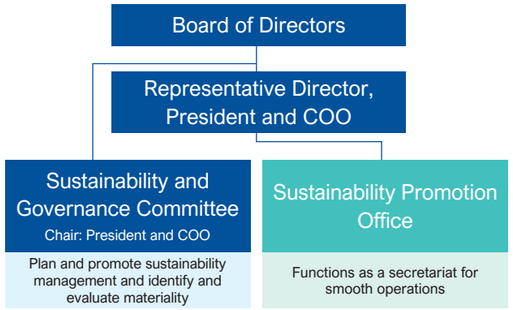
CUBE SYSTEM Group's sustainability management

Social life has changed significantly and so has people's demand for products and services. Companies that provide such products and services are now working hard to reform their businesses and processes through DX. We support these companies' DX by utilizing our advanced software engineering skills. We pursue our sustainability management by regarding social issues that our customers face as a business opportunity.

Sustainability promotion structure

We established the Sustainability and Governance Committee, chaired by the President and COO, in order to drive forward our sustainability management. The business management system of the Group is established with this Committee in its center.

Sustainability promotion structure



Contribution to SDGs

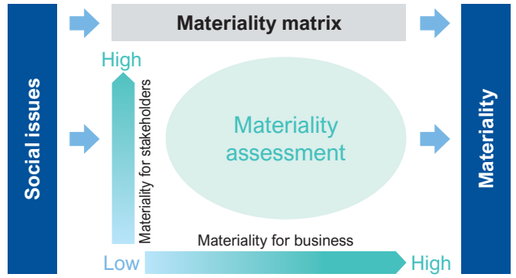
Building a sustainable society as the aim through achieving SDGs is closely related to practicing our Management Philosophy.

We will contribute to achieving SDGs by creating and offering high value-added IT services not only to customers, but also to customers' individual stakeholders and to society as a whole.

Important issues addressed by sustainability management

We identified the important issues to be addressed by our sustainability management through which we practice our Management Philosophy and achieve our Medium-to Long-Term Management Plan.

Important issue analysis



Important issue identification process

STEP 1 Materiality assessment from the stakeholders' viewpoint

(1) Regarding 169 SDGs targets as social issues that we should address, we assessed their materiality to us.
(2) Assuming the assessment items listed in the FTSE and DJSI rankings to be external stakeholders' viewpoints, we weighed the materiality of the 169 SDGs targets as social issues to stakeholders.

STEP 2 Materiality assessment from CUBE SYSTEM's viewpoint

To understand the materiality to us, we weighed the SDGs targets as we did in STEP 1 based on the services we provide and the Medium- to Long-Term Management Plan.

STEP 3 Mapping

We mapped the points obtained in STEPS 1 and 2 in the above matrix to identify especially important issues.

STEP 4 Determination in the Sustainability and Governance Committee

The Sustainability and Governance Committee discussed the results and determined the important issues.

Important Issues to Be Addressed by Sustainability Management

Important Issues (Materiality) to Be Addressed

Important issue

1 Creating the future of society through our DX business

While IT is rapidly advancing, we are aware of the need to utilize such technologies safely and effectively through novel perspectives. We are offering various IT solutions to society, such as by building a new business model utilizing DX technology to establish a convenient and comfortable society.



Important issues (materiality)

Contribute to development of customers' business through innovative businesses and services co-creating with customers and business partners.
- Promote Smile Share Products
- Promote IP conversion and product conversion
- Promote consulting collaboration and DX/AI business

Major initiatives in FY2023

DX business
- Smile Share Products
  Promoted research and development of a system that visualizes and enhances communications among employees by running the system internally.
- Generative AI business
  Introduced ChatGPT for internal use. Supported customers for introducing solutions based on our expertise in internal use, such as development in a secure environment and providing solutions in a short period of time.

Important issue

2 Offering safe and secure systems using cloud technology

Against the backdrop of emerging risks, along with ongoing changes in society, such as cyberattacks on data servers and recurring natural disasters, there is an increasing demand for system security. We aim to establish a safe and secure society by offering systems based on multi-cloud and micro services.



Important issues (materiality)

Provide platforms to run businesses with higher reliability to contribute to quality improvement of business activities.
- Provide new services based on multi-cloud and micro services
- Provide system security through co-creation with cloud vendors
- Provide new services through product consultation and reforming system operation models

Major initiatives in FY2023

Cloud technology
- Addressed customers' DX needs (material business issues) through building micro service-based cloud systems.
- Collaborated with cloud vendors to develop more reliable systems with better quality. Actively trained DX engineers who can work with vendors.
- Surveyed and assessed SaaS-related technologies and developed system solutions that can be adopted into our services.

Indirect contribution through addressing the important issues 1 to 3



Important issue

3 Contributing to client systems through software engineering

Improvement and streamlining of continuously running systems are necessary to respond to changes in our customers' business and internal environments. We aim not only to contribute to our customers' systems through our software engineering, but also to offer convenience and comfort to people and society beyond.



Important issues (materiality)

Contribute to maintaining, improving, and streamlining client system operations through our software engineering expertise.
- Pursue high productivity and high added-value

Major initiatives in FY2023

System Enhancement
- Promoted three business measures: New system enhancement business models, improving our corporate added-value by enhancing their profitability, and improving our productivity by enlarging our service coverage.
- Contributed to maintain, improve, and streamline client system operation, especially with new system enhancement business models, by enabling multitasking, automation, and utilization of overseas resources.
- Implemented business activities with a view to system enhancement after development, in line with the expansion of development sites centered on the Software Development Division.

Important issue

4 Solving social issues through business activities, such as reinforcement and improvement of value creation platforms

We contribute to resolving social issues such as aging population, deteriorating social infrastructure, and climate change by nurturing human resources, quality, and partner collaboration, which are the foundation for value creation.



Important issues (materiality)

We provide safe and secure high-quality services through a sound supply chain. We also maintain transparent corporate governance by practicing the spirit of diversity and inclusion, and employing and training diverse professional human resources.
- Improve quality and productivity through closer collaboration with business partners
- Improve quality in projects and development processes
- Constantly develop human resources and support for career development in various fields
- Reform working styles to enable active participation by diverse human resources
- Strengthen corporate governance, maintain sound compliance, reinforce information security measures, and minimize environmental impact

Major initiatives in FY2023

Platforms
- Reinforced collaboration with business partners (selection and concentration).
- Improved the System Development Committee and improved project quality by reinforcing the functions of the Project Management Office (PMO).
- Introduced a new human resources system.
- Implemented climate change countermeasures (response to TCFD).
- Reorganized the working environment and improved working hours and work quality.

Medium- to Long-Term Management Plan VISION 2026

**Employees think and act on their own initiative, pursuing their own ambitions and applying their own business mentality.
Achieve business growth through planning- and contract-type businesses.**

Actions for achievement
- Refine core technologies (software engineering)
- Contribute to society through software engineering

The Medium- to Long-Term Management Plan VISION 2026 (hereinafter, “V2026”) is the story of how each and every employee contributes to society through our business and improves our corporate value. To this end, it is essential to establish planning-type businesses in addition to our traditional contract-type businesses. In contract-type business, we accurately identify the problems and issues faced by our customers and proactively propose system solutions and resolve the said issues ourselves. In planning-type business, the know-how acquired in our contract-type business is combined to create unique solutions that we can offer as new value. In order to provide better service to our customers, it is more important than ever for each and every employee to think and act on their own initiative. Through V2026, we aim to become a company that can create high value-added IT services and contribute to the creation of a prosperous society.

Overview of V2026

First Medium-Term Plan
(FY2021 to 2023)

Business foundation
Brand value enhancement (Digital Business)
Scale expansion (SI Business)
Improvement of profitability
(System Enhancement Business)

Management foundation
Human resources
Quality
Governance

Issues to be addressed
- Reinforcement of development organization and facilities
- Securing human resources
- PJ quality
- Long working hours
- Collaboration with business partners
- Aggressive research investment

Second Medium-Term Plan (FY2024 to 2026)

Vision

Second Founding
- Business activities with solid fundamentals —Trust and quality
- Dramatic growth

Financial Targets
- Net sales 23.0 billion yen
- Operating margin 10.5%
- ROE 14.0%

Non-financial Targets
- Overtime hours 25 h/month
- Employee engagement* 71+

Axis of growth

Business
- Digital Business
- SI Business
- System Enhancement Business

Sler Business / End-User Business / Service Providing Business

Contract type / Planning type

Business foundation
- Promotion of collaboration
- Reinforcement of development organization and facilities
- Quality enhancement
- Research investment

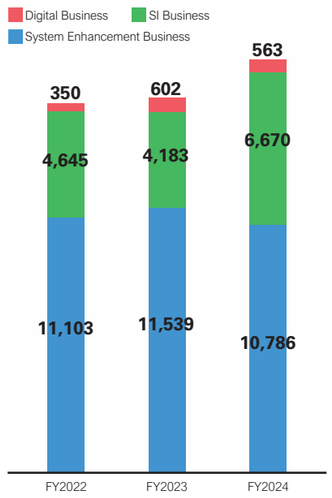
Management foundation
- Enhancement of human capital (quantity/quality/motivation)
- Internal control/ Governance
- Corporate culture reform

* Fulfillment level of engagement indicator surveyed among CUBE SYSTEM’s employees using Wevox, an engagement analysis tool provided by Atrae, Inc.

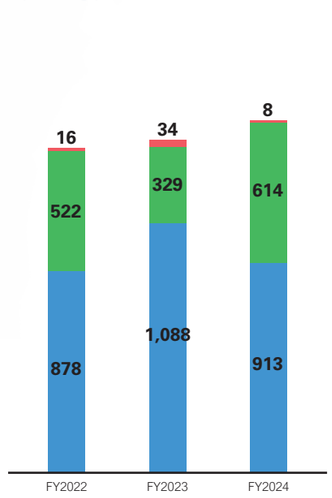
Review of V2026 First Medium-Term Management Plan
(FY2021 to 2023)

In the First Medium-Term Plan, we established a foundation for business growth by focusing on the formation of business assets for transformation into new businesses, as well as on the design of systems and the development of structures for business promotion to ensure solid growth. We promoted our business by focusing on three business models: Digital, SI, and System Enhancement. In the Digital Business, opportunities to win projects increased; in the SI Business, the sales ratio increased; and in the System Enhancement Business, productivity improved and profitability increased.

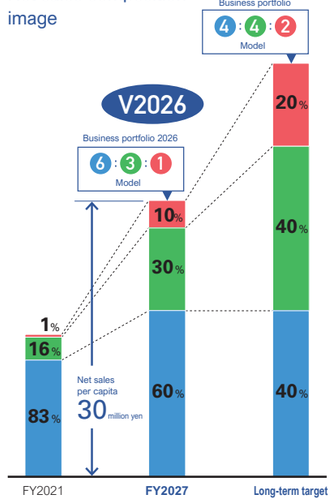
Net sales (Millions of yen)



Operating profit (Millions of yen)



Net sales composition image



	Results as of FY2021	First Medium-Term Plan			
		FY2022	FY2023	FY2024	First Medium-Term Plan target figures*2
Net sales (Billions of yen)	**14.7**	16.0	16.3	**18.0**	**19.0**
Digital Business	**0.06**	0.35	0.60	**0.56**	**1.00**
SI Business	**2.50**	4.64	4.18	**6.67**	**5.70**
System Enhancement Business	**12.10**	11.10	11.53	**10.78**	**12.30**
Net sales CAGR (Compared to FY2020) (%)	**-**	8.9	5.3	**6.8**	**8.7**
Operating profit (Billions of yen)	**1.17**	1.41	1.45	**1.53**	**1.71**
Operating margin (%)	**7.9**	8.8	8.9	**8.5**	**9.0**
ROE (%)	**14.0**	13.8	11.8	**10.8**	**13.0 or higher**
Net sales per capita*1 (Millions of yen)	**21.0**	22.5	22.8	**24.3**	**23.0**
Number of employees (Domestic) (people)	**689**	714	713	**740**	**-**
Number of employees (consolidated) (people)	**781**	830	843	**886**	**-**

*1 Calculated based on the number of employees (Domestic)
*2 The target figures for the First Medium-Term Plan are the figures announced on May 11, 2022 (Announcement of Amendment in Financial Targets in the Medium-Term Management Plan).

Second Medium-Term Plan Basic Policy Second Founding

— Solid Fundamentals for Dramatic Growth —

In the Second Medium-Term Plan, we set the basic policy as the "Second Founding: Solid Fundamentals for Dramatic Growth," and will work to build a foundation by emphasizing quality and trust as the basis for new business expansion and overall scale expansion. In addition to the three business models proposed in the First Medium-Term Management Plan, we will accelerate our business growth by promoting specific measures in three business styles: SIer Business and End-User Business which group contract-type businesses according to customer style, and Service Providing Business which is our planning-type business.

Second Medium-Term Plan Overview

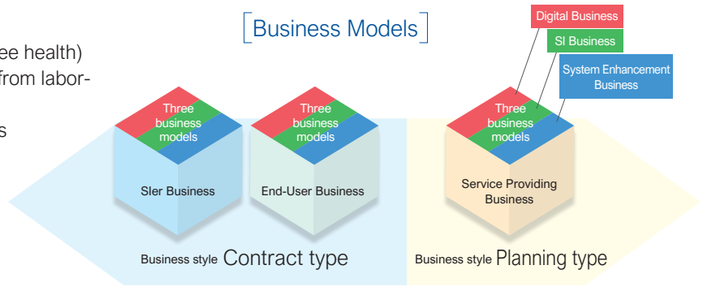
- **Maximize corporate value by achieving business activities with solid fundamentals and dramatic growth**
- **Improve profitability as a business**
- **Promote wellbeing management and make the company a fulfilling place for employees to work**

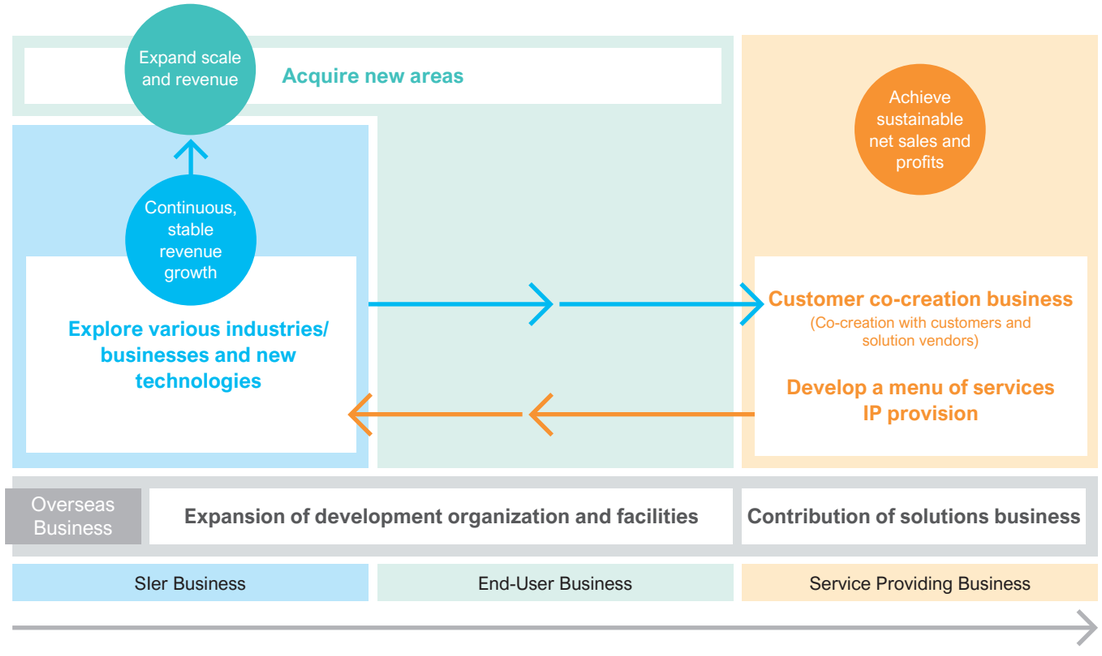
Basic Approach to Management

- Wellbeing management (emphasis on employee health)
- Change management's mindset (break away from labor-month business and passivity)
- Take on the challenge of new business models

Key Issues

- Shift from partial to total optimization
- Invest aggressively in growth
- Accelerate decision making





	Results as of FY2024	Second Medium-Term Plan Target			
		FY2025	FY2026	FY2027	Compared to FY2024
Net sales (Billions of yen)	**18.0**	18.8 (4.3% increase from the previous period)	20.6 (9.6% increase from the previous period)	**23.0** (11.7% increase from the previous period)	CAGR 8.5%
Digital Business	**0.56**	0.80	-	**2.5**	
SI Business	**6.67**	6.80	-	**7.5**	
System Enhancement Business	**10.78**	11.20	-	**13.0**	
SIer Business	**14.22**	14.60	-	**17.5**	
End-User Business	**3.30**	3.48	-	**4.5**	
Service Providing Business	**0.50**	0.72	-	**1.0**	
Operating profit (Billions of yen)	**1.53**	1.60	1.95	**2.41**	CAGR 16.2%
Operating margin (%)	**8.5**	8.5	9.5	**10.5**	+2.0 pt
Number of employees (Domestic) (people)	**740**	800	-	**920**	-
Net sales per capita* (Millions of yen)	**24**	23	-	**25**	-

* Calculated based on the number of employees (Japan)

Business strategy

SIer Business

The SIer Business has contributed significantly to our business growth, with an annual growth rate of 7.4% over the three years of the First Medium-Term Plan. In the Second Medium-Term Plan, we are focusing on strengthening engineering to further deepen our core technologies and offering one-stop system development service from upstream to downstream in order to achieve dramatic growth. As we improve our technological capabilities, which is one of our strengths, we will simultaneously provide new value, products, and services to our customers, which will lead to the expansion of our SIer Business as well as our End-User and Service Providing Businesses.



Daiki Wakamatsu
Senior Executive Officer

Business strategy

End-User Business

To expand the number of customers who conduct direct business transactions with us, we established the category of End-User Business in the Second Medium-Term Plan. First, we will increase the number of areas that can be entrusted to us by building a track record with existing customers. In addition, we will actively implement proposals for new customers based on successful examples of DX and generative AI already being offered as services. At the end of the First Medium-Term Plan, this category made up less than 20% of our sales, but we will expand this business by selecting customers that will allow us to leverage our technology and strengths.



Shin Kanai
Senior Executive Officer

Business strategy

Service Providing Business

We will expand the Service Providing Business based on services using cloud technology. To this end, we will promote collaboration with vendors and develop new customers based primarily on our technology and generative AI. In addition, we will create services to solve our customers' human capital challenges, primarily through consulting and our own products. In addition to technology, which is one of our strengths, we will propose and implement high-quality services from the customer's perspective to contribute to the development of their business.



Koji Aihara
Senior Executive Officer

Business Foundation

Promotion of collaboration

Promote synergies with major SIers to promote solutions to diverse social issues, enhance and expand customer services, and achieve sustainable growth through value creation

1. **Reinforcement of development systems**
   Strengthen recruitment of new graduates and mid-career hires (experienced, slightly experienced, and highly qualified)
   Enhance domestic development bases
2. **Practice one-stop service**
3. **Promote the use of offshoring**
4. **Promote consulting collaboration**

Reinforcement of development organization and facilities

1. **Area expansion**
   Expand the system by establishing new development centers at existing and new bases
2. **Qualitative improvement**
   Enhance production capacity and production innovation (technology/development process) at offshore and near-shore locations

Quality enhancement

1. **Establish a quality control system for business model reform**
   Strengthen risk response for end-user projects and enhance response for high value-added projects
2. **Establish a quality control system to expand development organization and facilities**
   Improve process quality in cooperation between the headquarters and group companies and develop quality control personnel
3. **Qualitative improvement of the System Development Committee**

Research investment

R&D and product development

- Proactive implementation to quickly incorporate cutting-edge technologies based on customer needs and market trends
- Design, manufacture, and demonstration of prototypes for advanced technologies (AI, blockchain, IoT, etc.)
- Marketing surveys and research and development of new solutions and services
- Promotion of patents, trademarks, and other intellectual property strategies

Production innovation

- Production innovations for technology and development processes (AI application, tool development, frameworks, etc.)

Management Foundation

Enhancement of human capital

Employment (quantitative expansion)

- High standard for new graduates (channel development), 90 people
  Career hires (experienced + slightly experienced, highly qualified), 45 people

Development (quality improvement)

- Thoroughly operate a basic development system
- Develop and establish a system for developing highly qualified human resources (advanced professionals, organizational managers)

Engagement (motivation improvement)

- Improve total economic incentives and create work fulfillment/opportunity to motivate employees
- Introduce a stock compensation plan for employees

Key Performance Indicators

		Key Performance Indicators (KPIs)	First Medium-Term Plan Results	Second Medium-Term Plan Targets
Financial				
Capital efficiency		ROE	10.8%	14.0%
Productivity		Net sales per capita	24.3 million yen	25 million yen
Business model reform		Ratio in net sales	SI Business +4.1 billion yen (Compared to FY2020)	End-user project*1 +1.2 billion yen Services provision +500 million yen
Growth potential		Net sales CAGR	6.8%	Approx. 8.5%
Profit indicator		Operating margin	8.5%	10.5%
Shareholder returns		Dividend payout ratio	49.7%*2	50%
		DOE	5.4%	7.0%
Non-financial				
Diversity promotion	Empowerment of women	Ratio of female employees in manager posts	10.3%	15.0%
		Ratio of women among unit managers	18.6%	30.0%
	Gender gap in wages	All workers	85.7%	—
		Regular workers	85.8%	—
		Part-time/temporary workers	84.5%	—
Workstyle reform	Work-life balance	Overtime hours (monthly average)*3	33.6 h	25 h
		Ratio of annual paid leave taken	71.3%	70%
		Ratio of male employees taking childcare leave	64.7%	70%
	Health and productivity management	Education and encouragement of all employees for health	—	—
		Ratio of highly stressed employees	15.2%	10% or less
	Engagement	Ratio of employees with work fulfillment (Wevox score)	Fulfillment: 64	Fulfillment: 71+
More lively communication		Smile Share Products usage rate	59.2%	80%
		Engagement (Wevox score)	Relationships: 75 Organizational culture: 71	Relationships: 80 Organizational culture: 80
People development		Ratio of employees taking IT skills training	96.3%	100%
		Promoting qualifications (Advanced/Applied Information/AWS/ Oracle Cloud)*4	Advanced — Applied Information 18.6% AWS 4.0% Oracle Cloud 3.4%	Advanced 10% Applied Information 25% AWS 10% Oracle Cloud 10%
		Days of education/training per person (including self-development)*5	5.5 MD	10 MD
Environment		GHG emission targets (Scopes 1, 2, 3) (Base year: FY2020)*6	Scopes 1, 2: 237 t-CO_2 Scope 3: 5,398 t-CO_2	Scopes 1, 2: 227 t-CO_2 Scope 3: 4,004 t-CO_2

*1 The amount of increase is compared to the FY2023 outlook. *2 The Second Medium-Term Plan policy was applied ahead of schedule in the final year of the First Medium-Term Plan. *3 Calculated based on overtime hours (over 7.5 hours). The figure is an average for all employees, including exempt employees and managers. *4 Applied Information Technology Engineer Examination (AP), Amazon Web Service (AWS) Certification (Professional level), and Oracle Cloud Infrastructure Certifications. *5 Education expenses for the FY2024 was 142 million yen, or 213,000 yen per employee. *6 Scope 3 covers only Category 1 (purchased products and services).

Human Capital
(Human Resources Development)



One of our management foundations is our human resources.
We place importance on creating systems and environments that enable each employee to thrive as part of a diverse, professional workforce.

Our Approach Toward Human Resources

In order for the company and its employees to grow together, we have established a Human Resources Policy that defines the vision of what our company should be. We will achieve a higher level of social contribution by respecting each other, creating our own business, providing high quality services to our customers, and growing as corporate members.

Human Resources Policy

Continue to be a company where each and every employee is **healthy** in mind and body and can work with a **sense of fulfillment** in their jobs	Support social reform by **demonstrating diverse abilities** and **personalities** and working as **professionals**	Employees and the company **grow** together by taking on the **challenge** of creating new value, and share in the results

Recruitment

We actively hire employees who have acquired not only IT skills, but also comprehensive human and management skills, and who are capable of solving our customers' problems.

New graduate recruitment

We conduct our recruiting activities with a focus on helping students understand the work of SE. In addition to online seminars, we also hold open company events, one-day work experiences, and five-day internships. The five-day internship, which aims to deepen understanding of the system development process from upstream to downstream and the necessary skills and ways of thinking, has been highly praised by the students who participated.

Career recruitment

When it comes to career recruitment, we actively hire not only people with experience as systems engineers, but also those without experience. By having our staff members take an active role in utilizing their various expertise, we are revitalizing our organization and contributing to our customers' business reform.

Human resources system

We view our human resources system as something that connects employees with the company, which serves as the foundation of the company. In April 2024, we introduced a new human resources system to support and accelerate the cycle in which the company provides an environment where employees can grow, and where employees can contribute to society and stakeholders while developing their own careers.

Human resources system concept

Can recognize growth	**Can achieve results**	**Can choose according to abilities**

Our human resources system is based on a skill grade system and a mission grade system, whereby each grade defines the level of job performance required and the role (= mission) to be achieved. By assigning visions and business plans as missions and setting grades, we aim to promote human resources development by motivating each employee to grow.

Human resources system framework

Four position levels and expected roles and abilities



Human resource career plan

Our career plan has four position levels. Career development positions require employees to gain the experience necessary to achieve company goals, to learn and develop their own skills, and to take responsibility for achieving the goals they set for themselves. Leadership positions are the entry level for professional positions and organizational managers, and involve contributing to the achievement of organizational missions and project plans by honing one's own expertise and assisting in organizational management with an eye toward the next step in their own career. Professional positions and organizational managers, as supervisory positions, require a medium- to long-term, company-wide perspective, and those in these positions need to work together with management to take responsibility for company-wide reform and target achievement. In particular, those in professional positions are responsible for creating new value by leveraging the intellectual value they possess and executing high-stakes projects, while organizational managers are responsible for achieving the business plan and fulfilling the mission of maintaining and developing the organization. By reflecting individual aspirations in their career paths, we provide a career path that allows each individual to continue growing at any position level.

Human Resources Development

Efforts in human resources development

To achieve our Medium- to Long-Term Management Plan VISION 2026, we have set forth four priority actions for human resources development.

With these in mind, we are working to develop human resources over the medium to long term.

Priority actions in human resources development

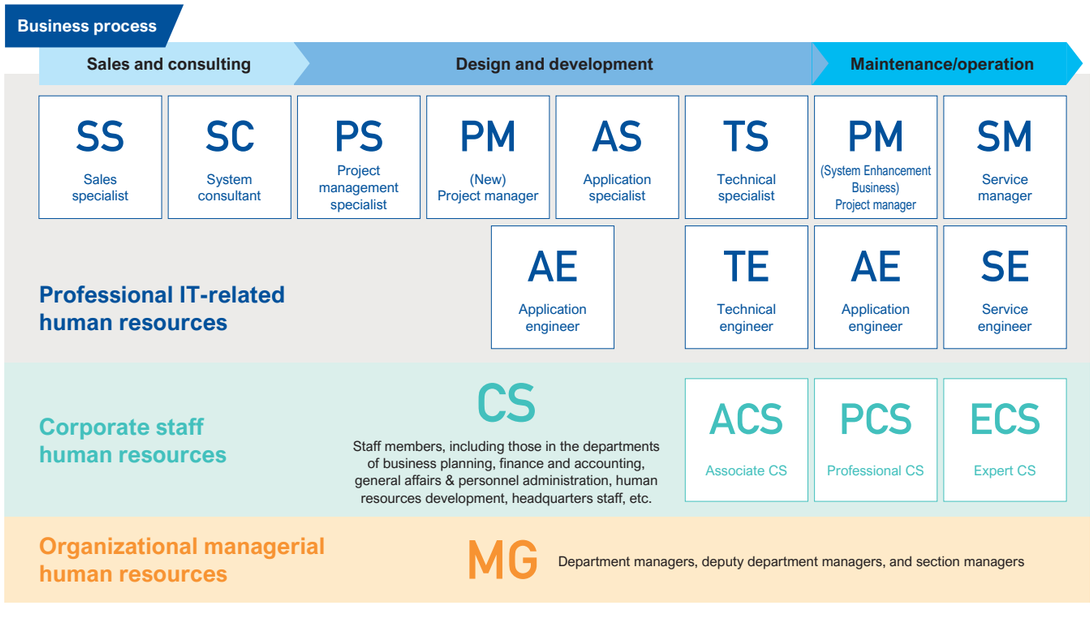
1 **Establish human resource portfolio targets**	2 **Establish human resources development scheme (structure and system)**
3 **Establish training support to help employees' growth**	4 **Create a corporate culture that values human resources development**

Defining career fields

The career field is a framework for human resources development and internal recognition of employee success. In order to better picture the type of human resources that are expected, all career fields are defined by three factors: the expected work results, job scope/duties and work experience/ performance. Each employee sets their goals according to their career fields. Working toward these set goals should develop the employees and increase their human value.

In professional IT-related human resources, there are 12 career fields. After joining the company, employees acquire basic engineering skills and build performance results, while mid-career employees clearly identify their respective specialized field of engineering. In this manner, we develop human resources that contribute to our business through specialized skills. Since the roles and duties of corporate staff human resources are clearly defined, young staff members are required to become familiar with the fundamentals and accumulate business experience. Mid-career or higher-grade employees are required to work on developing expertise in their respective fields. Organizational managerial human resources also have career fields as professional IT-related human resources and corporate staff human resources, but as organizational managers, they focus on and implement business promotion, such as organizational operations and human resources development. Our aim is to develop human resources in a way that enables employees at each step to grow and become part of the drive to enhance our corporate value.

Definition of career fields

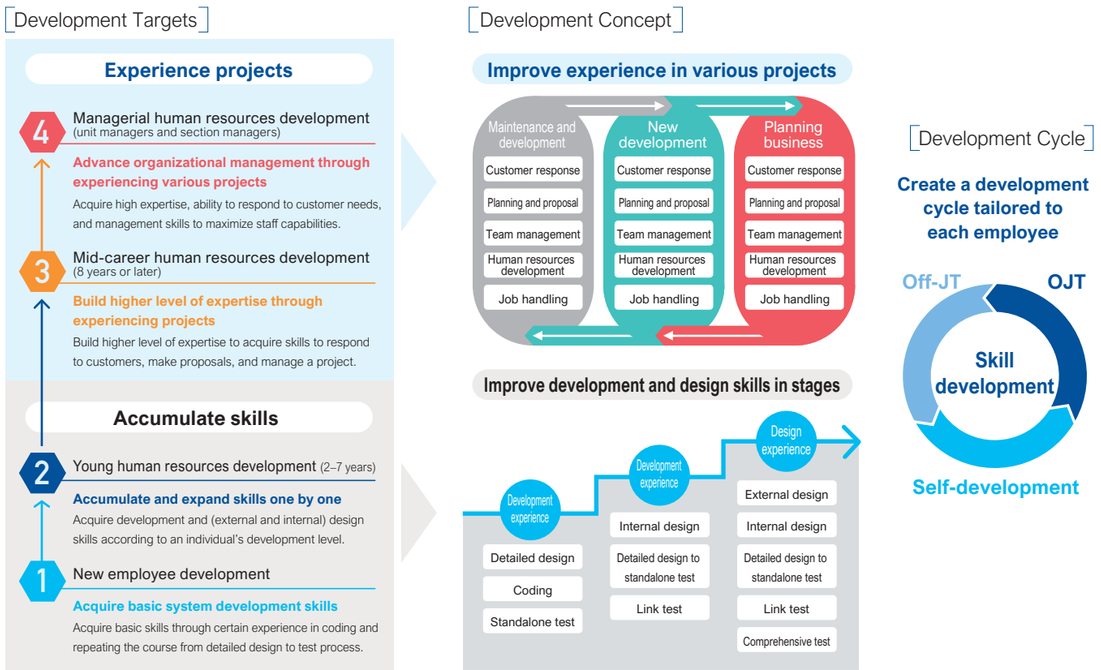


Human Capital (Human Resources Development)

Professional IT-related human resources development

We aim to gradually improve the skills of the professional IT-related human resources to make a high-end engineer within their specialized field over the years. To realize this development procedure, it is important to offer opportunities under an appropriate mentor, selecting both the timing and the skills to be acquired and motivating employees to work for their growth. As we believe that OJT is the most important means of human resources development, we are encouraging our mentors to develop human resources in a purposeful and systematic manner.

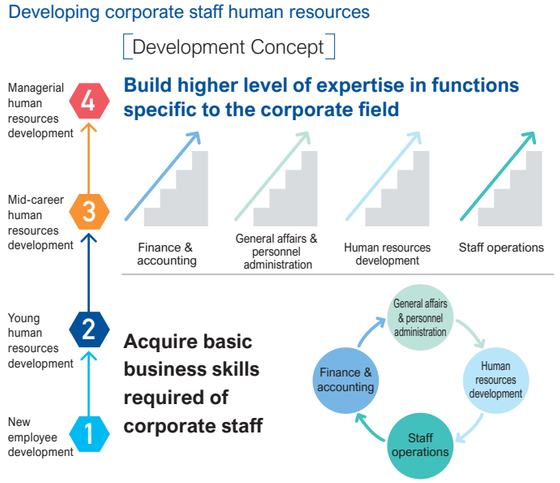
Developing professional IT-related human resources



Corporate staff human resources development

The basic approach to staff development for employees with little experience in the area is to build up their fundamental business skills as Associate CSs so that they can perform a wide range of staff duties. Subsequently, with consideration given to the person's abilities and enthusiasm and to the direction of their career development, mid-career employees who have acquired specialized skills and business experience go on to acquire more advanced specialized knowledge and skills in their relevant specialized field as Professional CSs, growing as master-level professionals in human resources, accounting, and so on. At the same time, we develop management-level human resources who can be responsible for overall corporate management and planning.

Developing corporate staff human resources



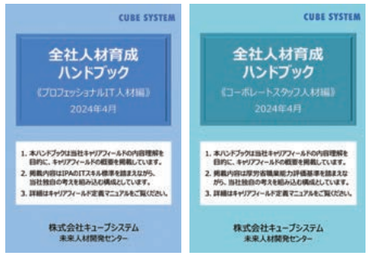
Human resources development program

Human Resources Development Guidelines

We develop human resources according to our overall human resources development framework, the Human Resources Development Guidelines, based on our Management Philosophy, Basic Policy, and the ideal human resources we seek, while also taking into account our business plan and industry trends. Led by our Future Human Resources Development Center, we raise awareness and disseminate these guidelines among our employees.

Distributing the Groupwide Human Resource Development Handbook

We created and distributed a handbook for employees to help deepen their understanding of career fields. The book is used to confirm results, range of work, roles, qualifications, skills, and project results required per career field. The aim of the handbook is to renew employees' awareness of the concrete skills and abilities expected in their own career fields and encourage them to pursue a higher position. We continue to offer a range of support for employees to set up clear goals and grow towards them in a planned manner.



Groupwide Human Resource Development Handbook

Training

In order to adapt to changes in the environment, we support the growth of our employees using four types of education. By implementing training in an appropriate format according to the purpose and content of the training, we increase the effectiveness of the training and foster a corporate culture that encourages employees to continue to learn on their own initiative.

Professional training	**Basic skills training** Aimed at acquiring basic technical skills expected of IT- and CS-related human resources
	Thematic training Aimed at acquiring thematic technical skills according to career fields
Job level training	Aimed at understanding the roles to be played at each level and the expectations of the company, and acquiring the necessary skills and mindset
Autonomous learning support	Provide an e-learning environment where each employee can aspire, envision who they want to be, and learn on their own initiative and at their own pace

Support for qualifications

To provide training and edification for our employees, we offer subsidies to gain certification in areas related to the company's business operations and pay their certification examination fees.

Number of Qualified Employees (as of July 2024)

IT engineers	Basic IT engineers	403
	Applied IT engineers	128
	Advanced IT engineers	56
	Oracle DB	270
Advanced technologies	Oracle Cloud Infrastructure	66
	AWS	203
	LinuC	54
	JDLA G-certificate, E-qualification	G-certificate: 52 E-qualification: 7
Customer communications	Retail Marketing Certification (Grades 2 and 3)	104 in total
	Sales Representative Qualification (Class 1 and Class 2)	10 in total

Selected for the Amazon Web Service (AWS) Japan Certification Award

Two of our engineers have been selected for the 2024 Japan AWS All Certifications Engineers award, which recognizes the holders of all AWS certifications who work for companies participating in the AWS Partner Network (APN).

Human Capital (Diversity and Inclusion)

We regard diversity as materiality. We are tackling in particular the issues on empowerment of women, employing persons with disabilities and improving work fulfillment as ways to meet the expectations of a wide range of stakeholders and raise our corporate value.

Basic Approach

We are working to upgrade our systems, programs and work environment and to implement awareness reforms that enable our diverse human resources to work and grow in ways suited to their respective conditions, founded on mutual recognition and respect regardless of gender, age, nationality, social status, disability or values. We are focused in particular on empowerment of women, considering the significant number of female employees in our company, and we believe it is vital to our business growth and future development.

Under our Medium- to Long-Term Management Plan VISION 2026 mission statement, Communication & Mutual Respect, we are creating an environment where women and other employees with diverse backgrounds can come together and work together, and promoting the recruitment and development of talented employees to enhance our corporate value.

Empowerment of Women

Empowerment of women is an important management indicator in our Medium-Term Management Plan and our business plan for the current fiscal year and we have implemented various measures to increase diversity. Specifically, messages from the President and COO on diversity, empowerment of women and workstyle reform are sent to our employees. Town meetings are held between the President and female employees for an open exchange of opinions. We motivate our female employees to enjoy life as well as work and face them both with a sense of work fulfillment and individuality. Moreover, we are offering other programs such as our Visionary Woman Training to foster self-reliance and work more aggressively. Through these activities, we plan to resolve issues to make handling both work and family easier. We also support our female employees in developing their careers—ultimately to bring an increase in the ratio of women in managerial posts.

In our commitment to empowerment of women, we have selected female candidates for managerial posts in each business division from FY2023, with consideration given to career development planning and accrual of the necessary experience.

Establishment of the Business Support Group

In FY2022, a business support team was formed consisting of persons with disabilities and dedicated follow-up members. The mission of the Business Support Team (presently Business Support Group) is to increase the employment of disabled persons and improve their working conditions, to create a work environment in which each person is able to demonstrate their abilities and find fulfillment in their work. In addition, by having employees with disabilities take on tasks that contribute to the company according to their individual characteristics, we are creating job satisfaction and improving their engagement.

Specifically, persons with disabilities are taking a central role in jobs such as using robotic process automation (RPA) to automate business operations, handling employee welfare and benefits and administration of the library. In addition, the Business Support Group exercised leadership in the creation of WORK Support, an in-house portal site designed to communicate regular news such as the parasports activities of team members and to improve communication and mutual understanding with employees from other departments. The Mental and Physical Work Supporter Training Course, a training program designed to teach people how to interact with employees with disabilities in the course of business operations, has been set up to promote greater mutual understanding including employees with disabilities.



Business Support Group portal site

Special needs school instructor

Since April 2023, the company has been teaching classes at Tokyo Metropolitan Eifuku School, as a specially-appointed professional instructor. In FY2023, we held classes on how to operate a PC, information security, and creating and presenting presentation materials.



Human Capital (Health and Productivity Management)

Under the company's management philosophy that "companies thrive through the support of various people," we have implemented activities to build an environment and systems that allow diverse human resources to demonstrate their potential, aiming at management that supports their wellbeing.

Approach to Health and Productivity Management

The CUBE SYSTEM Group and its employees are working in concert to develop the spirit (human capabilities), techniques (knowledge, technology and skills) and the body (mental and physical health). We believe that the sound health of each and every employee is vitally important for the sustainable growth of our Group. We are implementing this belief based on the conviction that Health and Productivity Management is an essential policy for good employee health.

Health and Productivity Management Policy

For sustainable business growth and medium- to long-term advancement of our corporate value, we are implementing initiatives on the health and productivity management designed to improve the mental and physical health of our employees and to create a better workplace.

2024 Certified Health & Productivity Management Outstanding Organizations Recognition Program

Following 2023, we were selected for the 2024 Certified Health & Productivity Management Outstanding Organizations Recognition Program organized jointly by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. This is a program that recognizes outstanding performance in health and productivity management, based on efforts to address regional health issues and health-related challenges promoted by Nippon Kenko Kaigi. We will continue to implement initiatives to create a better workplace for our employees that will support their mental and physical health.

2024 健康経営優良法人 Health and productivity

Developing Diverse Human Resources through IT

More lively communication

Workstyle diversification, such as absence of personal contact and diversification of work sites, brings many communication issues. To ensure that each employee understands our business management and VISION 2026 and to encourage their active participation in our business, we organized meetings to provide all departments and offices with opportunities for personal contact with our President. Our Smile Share Products are designed to foster greater engagement among employees in this age of the new normal and closer communication.

CUBE SYSTEM's Smile Share Products
https://www.cubesystem.co.jp/en/service/smile/

Engagement activities

In 2023, we established the Engagement Enhancement Committee with the aim of planning and promoting measures to strengthen engagement and promoting the use of Smile Share Products.

We conduct engagement surveys using Wevox*. Based on the data, the Engagement Enhancement Committee leads the review and promotion of wellbeing practices and engagement improvement measures.

* Engagement analysis tool provided by Atrae, Inc.

Workstyle reform

We believe that creating an environment in which employees can maintain good physical and mental health results in optimal work performance to support customers and therefore we established the Work Style Reform Committee in 2017. We set work fulfillment indicators to measure each employee's sense of fulfillment at work, their state of mental and physical health and sense of vitality and dynamism in the workplace to promote work styles that are adapted to external changes.



Human Capital Roundtable Discussion



To Further Promote Diversity and Inclusion

An officer and two employees exchanged opinions on the current status and challenges of our diversity and inclusion initiatives.

—What is your basic approach to diversity and inclusion?

Odaka We are working to upgrade our human resources system and work environment and to implement awareness reforms that will allow our diverse human resources to work and grow in ways that are best suited to their respective conditions, founded on mutual recognition and respect regardless of nationality, age, gender, social status, disability, or values. In terms of nationality, we are actively utilizing human resources from Vietnam and China in order to expand our development organization and facilities, and we are striving to hire people who have the skills we seek and who share our philosophy.

We also hire individuals of any gender who can play a role in our growth strategy. We were an early proponent of creating an environment that supports women's work styles, and many women have returned to work after maternity or childcare leave to play active roles in the company. Many of our employees continue to work for us not only because of our well-developed work system, but also because they love CUBE SYSTEM, which we believe is one of our strengths as a company. However, expectations for the work environment change, so we are constantly working to improve our work systems and environment. We apply the same concept in the utilization of human resources with disabilities.



Minoru Odaka
Executive Managing Officer

—How are you working to utilize people with disabilities?

Ito We are working to create an environment, system, and structure that will allow all employees, regardless of any disabilities, to be active in CUBE SYSTEM over the long term.

We have been welcoming people with disabilities for about 10 years. Initially, this was implemented by individual departments, but now the Business Support Group (promoted from the Business Support Team in April 2024) is the driving force behind this company-wide initiative.

The Business Support Group is comprised of employees with disabilities and the employees responsible for supporting them. Employees with disabilities are involved in a variety of tasks requested by various departments within the company. Employees responsible for providing support follow up on the work and conduct recruitment activities, focusing on visits to special needs schools and labor transition support offices.

Matsushita Our role as support staff is to create employment opportunities for employees with disabilities and ensure they are able to continue working. We are also working to promote understanding of employees with disabilities through the operation of an internal portal website, WORK Support, and by holding awareness-raising lectures. We do not see disabilities as a bad thing, but rather as a form of individuality that differs in characteristics from person to person. For example, in choosing which tasks to assign, we try to take advantage of the individuality of each employee with disabilities, such as assigning computer setup to those who want to work with computers or assigning a support role to trainees who have the ability to look after others.

Odaka There is something very admirable about the Business Support Group. Employees with disabilities work in the same way as general employees, setting targets and checking their work performance. Being able to recognize how much one is contributing to the company, using the target value as a guide, undoubtedly makes their work more fulfilling. We also believe that collaboration with special needs schools, which we have been conducting for the past two years, is a very significant initiative. Providing opportunities for people with disabilities to gain an interest in working or in the IT world by not only recruiting personnel but also having our employees assist in classes as instructors is an activity that is of great value to us and society.

—Are the attitudes of the employees or organizational culture changing?

Ito As time has passed since they joined the company, the attitude toward work has clearly changed for employees with disabilities compared to when they first joined. Although it varies by individual, I am happy to see some members not only completing the tasks at hand, but also suggesting improvements or requesting to take on new tasks.

Matsushita I am also very delighted every time I see the growth of our members. As someone who supports people with disabilities, I sometimes participate in outside activities and there are times when I am unable to accompany members. When this is the case, the members work with a motivated attitude to accomplish the work by themselves, without depending on me.

Ito I believe that the mindset is changing not only among our members, but also among the general employees within the company. Compared to before, there are less comments that express hesitation with making requests, such as, "It's too much work to carve out the tasks," or "Our work cannot be handled by another department." We are receiving an increasing number of requests for work on a very regular basis, being asked to help because their department cannot handle the workload on their own.

Matsushita In fact, the number of tasks that the Business Support Group is entrusted to perform has increased compared to 2023. There is also a growing awareness of the work environment for employees with disabilities, as more and more people have offered encouragement after seeing articles on the company's portal website introducing the activities of employees with disabilities.



Eriko Matsushita
Project Leader
Business Support Group
General Affairs Dept.



Junichi Ito
Department Manager, General Affairs Dept. and Section Manager, Business Support Group

Ito However, we still have a long way to go. Effective use of employees with disabilities should occur more naturally. I believe that the ideal environment is one in which employees with disabilities can be treated in the same way as general employees, just as we utilize overseas human resources to address the shortage of domestic engineers and assign the right person to the right position based on the strengths and weaknesses of general employees.

—What are your thoughts on promoting diversity and inclusion in the future?

Odaka We are seeing positive results from our investment in the development and utilization of diverse human resources, including people with disabilities and women. I believe that if the company provides the right environment, such as language training for overseas employees, they will see the opportunities, take action, and achieve results. We will continue to focus on promoting diversity and inclusion.

Matsushita A company where people with disabilities can work comfortably is a company where everyone can work comfortably, and where diversity and inclusion initiatives are advanced. As I go about my daily tasks, I like to envision a future in which people with disabilities can work without assistance, not only in our company, but in many others as well.

Ito I think more employees need to recognize that promoting diversity and inclusion contributes to our management strategy. Working with a diverse group of people, including those with disabilities, can help employees gain new insights and encourage individual growth. This, in turn, will lead to the creation of new value, such as our DX business.

Odaka We have established four material issues (materiality) for promoting sustainability management. To achieve these goals, it is essential for the organization to have diverse values and capabilities. We want to transcend our differences and become a company in which a diverse range of human resources can thrive as their authentic selves and take on the challenge of creating new value.

Intellectual Capital



Research and development are essential for the growth of our group.
The areas of research and development include the cloud, AI, and blockchain technologies.
In particular, our demonstration experiment of DX technology is showing certain results.

Approach to Research and Development

Our R&D activities are categorized into Fundamental R&D and Developmental R&D. Fundamental R&D is research required for the development and improvement of the business foundation from the medium-term viewpoint. This includes research on the latest information technologies (ITs) and their feasibility investigation. Developmental R&D covers research to make various ITs market-ready—such as commercialization of new services, renovation of existing businesses, and reform of production methods, aiming at monetization or utilization in a profitable business after completing R&D.

Smile Share Products

The COVID-19 pandemic triggered diversification in working styles; however, the lack of communication has made some people feel anxious and they may find it difficult to stay motivated. We have developed a unique solution to this social issue with our Smile Share Products, which use IT to resolve issues with employee engagement and noncontact communication in the new era of teleworking.

More about Smile Share Products
https://www.cubesystem.co.jp/en/service/smile/

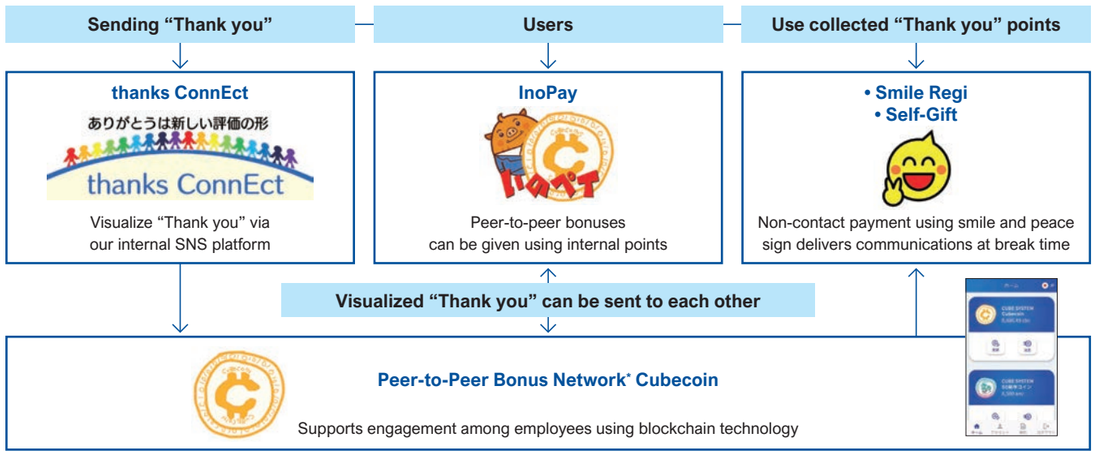
Patent granted for contactless AI facial recognition system

In February 2021, we obtained a patent for our touchless payment service that uses an AI-based facial recognition system. The patent was granted for “a series of input system/program and methods to make payments by recognizing the face of the user and a specific payment gesture.” This technology is used in our own non-contact payment service, Smile Regi.

Function expansion of internal cryptocurrency

We added a self-gift function to an e-gift exchange service, combining the digital gift service “giftee for Business,” provided by giftee Inc., and our own internal cryptocurrency, Cubecoin. This service allows employees to receive corporate welfare wherever they are, especially in these times of work-at-home when working styles are varying. We plan to expand the scope of the service by the usage analysis of the service in the company.

Smile Share Products



* Peer-to-Peer Bonus Network: A network through which colleagues can send their appreciation to each other as cryptocurrency to acknowledge work results, advice received, or study group and social contribution efforts.

Improving wellbeing

Employees can receive Cubecoins by exchanging a “Like!” through the SNS used inside the company. This encourages employee communications and improves their wellbeing. Accumulated Cubecoins can be used for themselves or given to colleagues, together with a message, to express appreciation. This is expected to produce a positive workplace atmosphere as someone’s appreciation is visualized in the form of our internal cryptocurrency, thereby fulfilling the need for approval.

Our Smile Share Products should contribute to society as a series of services that promotes an appreciation economy, through which people recognize and praise each other. This can be utilized between a company and its employees, or among employees. We are also starting to use this Smile Share Products as a non-financial value platform that contributes to our employees’ wellbeing and increases our company’s exclusive value. The products are now installed in our subsidiaries, enabling us to accumulate usage know-how. Based on this know-how, we plan to expand the products as a future service that can contribute to resolve our customers issues.

Promotion of Research and Development

We conduct groupwide research and development of cloud solutions, AI, and blockchain for new business development and internal implementation of new technologies. We are currently surveying and assessing SaaS-related technologies and developing solutions that can be adopted into our services.

InCUBEator

In recent years, technology for large-scale language models such as GPT has improved dramatically, and conversational AI in particular has become increasingly popular. Leveraging the know-how we have cultivated in our business, we have developed a conversational AI app called InCUBEator that utilizes a large-scale language model, and introduced it within the company. Since the functions can be used in an environment that is isolated from the outside world, it can also be used for actual development work. Additionally, it is designed to respond to inquiries about company regulations and guidelines, utilizing technology that combines search functionality with generative AI. This allows employees to quickly and accurately obtain the information they need, significantly improving work efficiency within the company. In addition, we also propose services to customers and support their DX promotion and operational reform efforts.

Partnerships with solution vendors

Oracle business expansion

We have been providing a variety of services at the large systems for a long time—including designing, building, operating, and tuning of their databases. Through our partnership with Oracle, which started in 1995, we have accumulated abundant knowledge concerning Oracle database infrastructural construction. Utilizing our advanced technical skills and exclusive know-how, we are able to offer Oracle cloud services to our clients.

Business and capital alliance with TRIPLEIZE CO., LTD.

In August 2018, we concluded an agreement for a business and capital alliance with TRIPLEIZE CO., LTD. TRIPLEIZE specializes in AI image recognition technology and provides a range of AI platforms. We are accelerating our business expansion though joint research and development towards the creation of new DX-based businesses and promoting DX-related human resources development through joint AI training programs and projects.

Business partnership with Kinaxis Japan K.K.

We concluded a business partnership agreement with Kinaxis Japan K.K. in November 2020. We are now training our employees by building knowledge and technological skills concerning the supply chain management (SCM) platform, Maestro (formerly RapidResponse®)*, provided by Kinaxis, while also participating in actual projects. We will keenly continue such collaboration with the company to expand into new business areas.

* Maestro (formerly RapidResponse®) is a trademark or a registered trademark of Kinaxis Inc.

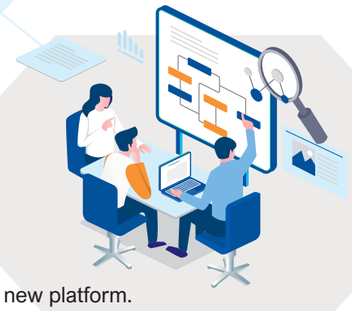
Certified partnership with ServiceNow Japan

We concluded a Certified Partnership Agreement with ServiceNow Japan in April 2021. The ServiceNow components further empower our system operation know-how and skills so that we can reform existing business models effectively.

Patent/Registered Trademarks

We regard the value of our services and business models as an important factor that contributes to improving corporate value and further developing our business. Therefore, our DX Promotion Office leads active acquisition and protection of the trademarks and other rights to such services and models. As of the end of March 2024, we possess 23 registered trademarks and two patents.

Manufacturing Capital



To ensure high quality services, we developed a quality control system that utilizes our know-how accumulated over the years. We are also keen to continue to improve our quality, such as by developing a new platform.

Basic Approach of Quality Management

With our customer first policy, we have established a quality policy that defines the fundamental attitude and initiatives needed to provide services that excel in quality and satisfy the customer. We ensure all our employees have a good understanding of our quality policy, enabling them to offer services as IT corporation specialists.

Quality policy

In mobilizing our technical, management and organizational capabilities to provide quality services that ensure customer satisfaction, guidelines and relevant rules and regulations have been established for the following activities.

1. Appropriate project management is executed through clear definition of the objectives and goals of the project and development of project plan.
2. The project status is assessed through review meetings for early detection of risks.
3. Third-party monitoring of projects is conducted to provide organizational support depending on the project status.
4. Analysis of the differences between plan and performance is conducted in each process (phase) for quality evaluation.
5. In an event of faults or problems, the event is swiftly escalated and an investigation into the root causes is conducted to introduce measures to prevent any recurrence.
6. In ongoing business relationships, continuous business improvement activities are organized in response to changes in customer needs and environmental conditions.
7. F@CE (our own standard framework for development) has been established to allow methodologies and know-how in system development, administration and management to be shared and for improvements in quality and productivity.

Framework to provide high quality

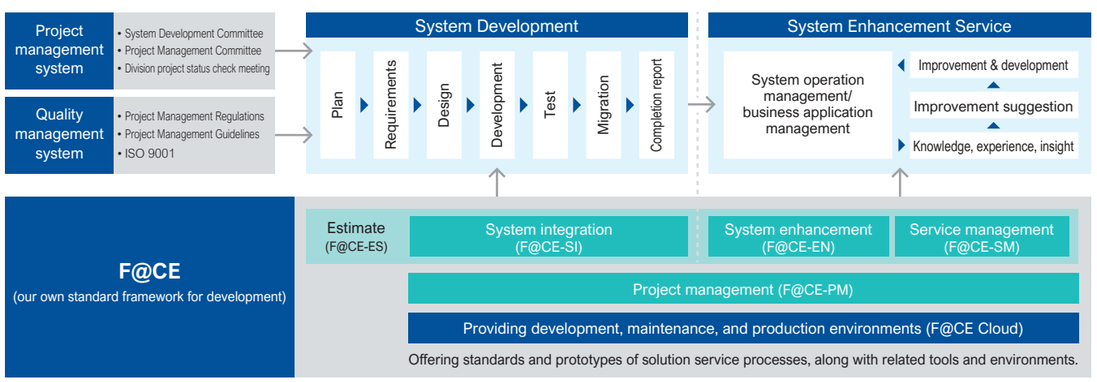
We have been providing system solution services to many customers over the years, and through our experience we have acquired and improved our service provision know-how. Integrating such know-how, we created our own standard framework for development, F@CE* (trademark number 6483227), that standardizes processes, activities, and tasks relating to service provision. We develop high-quality systems by sharing and utilizing this framework across the company.

* Framework@CUBE's Engineering

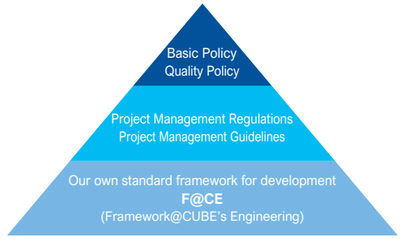
Quality management structure

Placing the highest priority on our quality policy, we have established the Project Management Regulations and the Project Management Guidelines, which lay down the principles that employees need to be familiar with and follow when managing our system solutions services. We also use F@CE to implement our concrete development procedure and know-how.

Quality Management Initiatives



Quality Management Structure



Quality Management System

Under our Quality Policy, we acquired ISO 9001 certification in 2001 for continual improvement of our quality management system and to provide customer satisfaction with our quality and efficiency. For future improvements in customer satisfaction with our solution services, we are making efforts to introduce greater advances in our quality improvement activities.

System Development Committee

We hold the System Development Committee meetings as a means of powerfully supporting the ongoing projects in our company. This Committee is established under the concept of "a mechanism to support frontline workers with attention to quality." Experts of highly advanced technologies, with specialized business knowledge, or of security, etc. are invited to a Committee meeting according to the varying risks that a project encounters to assess system contents and project management. The experts then offer practical advice suitable to the frontline situations of the project to ensure the quality of our service.

System Enhancement Services and Offshore & Nearshore Development

We do not regard the maintenance of systems and platforms simply as regular checks to be performed. We see it as an activity to "increase the value of the system by improving the system performance and quality to adapt to changes in customers' business environments and the emergence and evolution of new technologies." We also see it as an opportunity to offer new business. This is our System Enhancement Service that increases customers' satisfaction.

Our strength lies in this system enhancement service, and we visualize our service as well as improving and reforming business processes based on the know-how and software engineering skills that we have cultivated over the years. Through such activities, we drive forward system stabilization and operation streamlining to offer high satisfaction to our customers.

As part of the expansion of our near-shore development organization and facilities, we established a new Fukuoka Office in September 2023 and increased the floor space of our Hokkaido Office in February 2024.

CUBE SYSTEM VIETNAM, one of our offshore companies, also obtained ISO/IEC 27001 certification in FY2023. This certification is an international standard covering information security management systems (ISMS).

We have also been working to expand offshore and nearshore system enhancement services based on our experience developed through offshore development in China and Vietnam, nearshore development in Hokkaido, and our own system enhancement service. We will maintain our efforts to offer competitive services through expansion of our development organization and facilities.

F@CE-DX

F@CE-DX is a system development platform for small and medium-sized DX projects. The platform, which was made based on the accumulated best practices of highspeed development, provides an environment in which engineers can start system development on the day of installation.

DX projects associated with customers' business reforms require engineers to produce an MVP* in a short period, even though the system requirements may not be fixed as customers themselves often do not know what is necessary and what is the best way to achieve their goals. To work around this issue, we advance the development while clarifying requirements by repeating the cycle of planning, design, implementation, and testing in an agile project management. F@CE-DX provides great support and competitive superiority to manage such projects.

* Minimum Viable Product: A product that can provide the minimum necessary value to customers.

F@CE Cloud

F@CE Cloud is our standard project management platform. Recent software development requires short delivery times, at low cost, and with high quality. Among them, prompt project start-up and appropriate project management are the most important issues. F@CE Cloud, which is packed with our project management know-how, accelerates project launch and improves system quality and productivity.

Social and Relationship Capital



It is indispensable for our sustainable growth to build relationships with the various stakeholders that surround our business, including customers, business partners, stockholders, investors, and employees. We are working to build such relationships from a medium- to long-term perspective.

Customers

Our services have been offered to leading corporations in different industries through our partnerships with major SIers and their information subsidiaries over many years. We have acquired a strong working record, experience, and know-how through such partnerships, and these have become our important assets. We will continue to contribute to the development of our customers' businesses through our software engineering into the future.

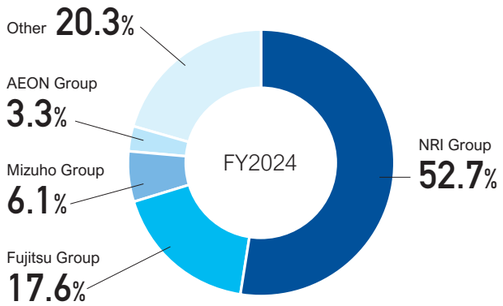
Length of continuous business transactions (end users)

More than 15 years: 18 companies	Major retailer, major bank, major GMS (general merchandise store), government agency, major home improvement center, securities company, etc.
More than 10 years: 11 companies	Major credit card company, food manufacturer, major telecommunication company, education business company, major life insurance company, etc.
More than 5 years: 14 companies	Electric power company, major gas company, etc.

Relationships with major customers

June 1984	Service agreement with Fujitsu Limited
December 2022	Capital and Business Partnership with Nomura Research Institute, Ltd.

Ratio of net sales to customer group companies



Customer satisfaction survey

We conduct a customer satisfaction survey every year with the goal of creating customer benefits and creating customer satisfaction. Customer satisfaction is not a result, but a goal we should set and aim at from the start of a project. Based on this idea, we reflect the survey results into our management plans. As a result of these efforts, every year many customers express their high level of satisfaction in the survey.

Survey results summary

FY2023 survey results showed a slightly lower customer satisfaction level compared with the previous year's results. Although we have received a certain amount of recognition, particularly for completing tasks requested by our customers, we have been faced with new challenges. These include the decline in quality due to the departure and replacement of project members, and the lack of organizational follow-up. Meanwhile, there have been improvements in communication with customers, which was identified as an issue last year. Based on these survey results, we continue our efforts to improve customer satisfaction in FY2024.

Issues found in the survey to be addressed

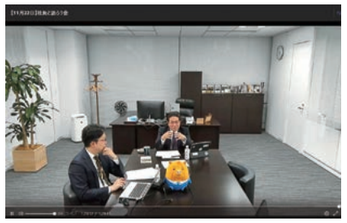
The FY2023 survey identified particularly important issues in human resources development, proposal capability, and responses in the whole project management. These issues have been shared across the Group through the customer satisfaction survey debriefing session. Also, we plan and implement improvement measures in each project to address the issues raised by customers.

Employees

Our strengths lie in our system development capabilities and the human resources who create them. We are promoting initiatives to improve engagement, including improvement of work styles and human resources systems and creating a workplace environment in which each individual can demonstrate their abilities. Through dialogue, we aim to create an environment where both the company and employees can grow.

Katarou-kai with the President

As a forum for communication between employees and top management, our company holds events titled *Katarou-kai* with the President. In FY2023, President Nakanishi and employees exchanged opinions on the theme of "Issues related to the management of the CUBE SYSTEM Group." Since it allows for direct dialogue, employee satisfaction is high and the program is used as an opportunity to connect top management and employees.



A snapshot from *Katarou-kai* with the President



Poster of the *Katarou-kai* with the President

Shareholders and Investors

Our company values our shareholders and investors as supporters who can provide us with management advice, and we strive to build relationships of trust with them. We aim to improve corporate value by providing information promptly based on transparency, fairness and continuity, and by proactively engaging in dialogue through General Meeting of Shareholders, IR meetings, etc.

Initiatives in FY2023

- Financial results briefing for institutional investors and analysts
- General Meeting of Shareholders
- Interviews with domestic analysts and institutional investors
- Company briefing for individual investors
- Shareholders' newsletter
- Letter to shareholders
- Video content for individual investors



Letter to shareholders

Business Partners

We ask our business partners to perform some of the programming and operational tasks in system development in order to improve the productivity of our business activities and to utilize their highly specialized know-how. By carrying out various activities to maintain and strengthen good business relationships, we are building relationships that allow for mutual growth and development.

Business strategy briefing for business partners

We hold a business strategy briefing session for business partners every year to promote understanding of our activities and strengthen collaboration. Through dialogue on business prospects and policies for each area, we promote stable orders and systematic human resources development for the medium to long term.



Briefing session for business partners

Capital and business partnership agreements

System Create Co., Ltd.
TRIPLEIZE CO., LTD.

Society

We believe that dialogue with local communities is also important for business continuity. We strive to coexist and develop with the local community through participation in the Shinagawa CSR Promotion Council, which aims to promote corporate social contribution activities, and cooperation in the Shinagawa Workplace Walk for junior high school students in Shinagawa-ku, Tokyo, where our head office is located, to help the students develop a future career outlook.

Activities in FY2023

- Company Visit by students of Shinagawa Gakuen
- Cleaning and beautification activities
- Shinagawa Hanakaido Beautification Activities

Natural Capital



The Group recognizes that climate change will have a significant impact on people's lives and business activities, and so in April 2005 we established our Environmental Policy and have been working to conserve energy and resources in our business operations.
In addition, we have positioned responding to climate change as one of the important issues in our business strategy, and have formulated a Medium-Term Management Plan based on anticipated risks and opportunities.

Environmental Management

We obtained ISO 14001 in 2005 and our business activities comply with this standard. We are also continuously improving our environmental management system. We continue paying careful attention to the environment in our business activities by setting concrete targets and improving environmental performance through regular reviews.

Efforts for TCFD

The Group's awareness of the importance of climate-related financial disclosure led to our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) Report in November 2021. We are steadily disclosing our environmental information in compliance with this report.

As a result, in FY2023, we received a B score in the CDP climate change survey.

Governance

In November 2021, we formulated the Sustainability Management Basic Policy and established a management structure centered on the Sustainability and Governance Committee. The Sustainability and Governance Committee meets semi-annually to review the progress and results of climate change-related goal setting and initiatives. The committee receives reports on matters considered and implemented to facilitate climate change-related initiatives, and deliberates response policies, etc. Any important matters discussed are reported to the Board of Directors for monitoring and supervision.

Risk management

Once a year, we identify risks and opportunities in the risk areas presented in the TCFD Final Report for our entire value chain, taking into account environmental and social trends. Identified risks and opportunities are reported to the Sustainability and Governance Committee for consideration of a course of action. Additionally, the Representative Director, President and COO receives the results of the risk and opportunity analysis and reflects them in the business strategy. In identifying, assessing, and responding to climate change-related risks, as with other risks, their status is monitored by the Internal Control and Integrated Risk Committee, and is integrated into the company-wide comprehensive risk management process.

Strategy

Risks and opportunities were identified and scenarios analyzed in order to reduce risks of climate change and increase opportunities. We develop and implement business strategies that reflect responses to the risks and opportunities identified through scenario analysis, and promote sustainable corporate management.

Risks and opportunities identified by scenario analysis (As of the end of March 2024)

Approach towards the timing of occurrence, likelihood of occurrence, and degree of financial impact

Timeline	Short-term: From now to 2026 (final year of V2026), Medium-term: 2027-2030 (target year in line with SBT criteria), Long-term: 2031 onwards
Possibility of cause	High: relatively certain, Low: relatively uncertain, and the middle defined as medium
Impact	Estimate the impact of climate change on business and finances based on net sales and operating profit **(Revenue)** Large: 500 million yen or more Medium: 100 million yen to less than 500 million yen Small: Less than 100 million yen **(Cost or profit)** Large: 50 million yen or more Medium: 10 million to less than 50 million yen Small: Less than 10 million yen
Scenarios	**No action taken**: IEA WEO 2023 STEPS, NGFS Current Policies (power prices only) **Decarbonization**: IEA WEO 2023 APS, NGFS BL2D (power price only) **Net Zero**: IEA WEO 2023 NZE, NGFS NZ2050 (power price only)

Transitional risks

Area	Factor	Business impact	Timing of occurrence	Likelihood of occurrence	Financial impact
Policy	Increase in carbon tax prices and introduction of new environmental taxes	Tax burden due to increased carbon prices, and increased electricity prices from fossil fuels	Short- to long-term	High	Medium
	Increase in carbon tax prices	Increase in outsourcing costs (procurement costs) to partner companies due to the impact of increased carbon prices	Short- to medium-term	High	Large
	Introduction of new environmental taxes and strengthening of energy conservation laws and regulations	Increased burden of equipment renewal and investment	Medium- to long-term	High	Large
	Reinforcement of information disclosure obligations	Increased costs associated with complying with strengthened corporate information disclosure obligations	Short- to medium-term	High	Medium
Market	Partner companies' delay in addressing climate change	Increase of costs due to the following initiatives (1) Increasing unit prices for partner companies that can take climate change response initiatives (2) Support for existing major partners in introducing climate change response initiatives	Short- to medium-term	High	Large
Reputation	Changes in investor evaluations	Decrease in stock price due to decline in corporate value as a result of investors' evaluation of inadequate response to GHG reduction requests and climate change issues	Short- to medium-term	Medium	Large

Physical risks

Area	Factor	Business impact	Timing of occurrence	Likelihood of occurrence	Financial impact
Acute	Increase and intensification of weather disasters such as windstorms and floods	Damage to buildings and business shutdowns due to damages to the company bases, and lost opportunities due to damage to business partners	Medium- to long-term	High	Small
	Increase in extreme weather events such as heavy rain and strong winds	Reduced productivity due to disruptions to transportation, network, and other infrastructure	Medium- to long-term	High	Small
Long-term	Long-term sea level rise	Relocation and opportunity loss due to flooding of company bases or surrounding areas	Long-term	High	Small
	Heat waves and chronic high temperatures	Increased air conditioning usage, and increased equipment maintenance and renewal costs	Medium- to long-term	High	Small
		Poor health and reduced productivity due to heat stress and increased risk of infection	Medium- to long-term	High	Small

Opportunities

Area	Factor	Business impact	Timing of occurrence	Likelihood of occurrence	Financial impact
Products and services	Increase in demand for low-carbon services and services that address climate change	Increase in sales due to increased demand from development of services (e.g. blockchain carbon accounting, and related management system) in line with customers' carbon neutrality compliance	Short- to medium-term	Medium	Large
		Increase in sales due to increased demand for migration to high-quality cloud environments as customers prepare for increasing and intensifying weather disasters and work to improve power efficiency	Short- to medium-term	High	Large
Energy source	Reviewing energy procurement and utilizing renewable energy	Reduction of the impact of carbon taxes through introduction of renewable energy and electric vehicles, and reduction in energy procurement costs	Short- to medium-term	High	Small
Resilience	Reinforcement of information disclosure	Increased opportunities for ESG investment through enhanced corporate information disclosure	Short- to medium-term	High	Large

Scenario analysis results

Among the identified risks and opportunities, scenario analysis was conducted on the themes of "the impact of the introduction of a carbon tax and energy price fluctuations" and "hazard screening for the impact of increased weather-related disasters due to climate change on our business bases," which we believe will have a significant impact on our company.

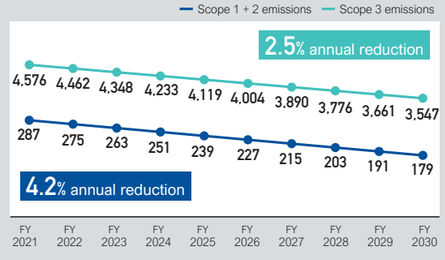
With respect to "the impact of the introduction of a carbon tax and energy price fluctuations," the results of the analysis indicate that the financial impact is limited and that the company is resilient to the applicable climate change risk factors.

As for "hazard screening for the impact of increased weather-related disasters due to climate change on our business bases," the results of the screening did not identify any significant risks with financial impact both in flood risk and storm surge risk.

Initiatives regarding SBT

Based on Science-Based Targets (SBTs), we will set targets to reduce greenhouse gas emissions by FY2030. We will also promote initiatives to reduce all our emissions. We will continue our efforts to reduce GHG emissions, targeting 179 t-CO_2 for Scope 1 + 2 and 3,547 t-CO_2 for Scope 3 (Category 1) in FY2030.

GHG Emissions Reduction Targets (t-CO_2)



Financial Capital



Maintaining and further improving our sound and secure financial standing is one of the most important elements for our sustainable growth.
We also regard the return of profits to our shareholders as one of our important issues.
As a part of such efforts to maintain our business, we value the sustainability of our management foundation.

Initiatives under the Second Medium-Term Management Plan

Aiming to achieve cash returns that exceed capital costs

To increase corporate value, it is important not only to increase accounting profits, but also to strengthen the free cash flow generated by the company. To achieve this, we are conscious of improving the quality of our profits. By securing stable operating cash flow through improved operating profit, while also raising interest-bearing debt and optimizing non-business assets, we will realize capital reinvestment in growth areas and returns to shareholders while maintaining appropriate financial leverage. Furthermore, we aim to establish a cycle in which this reinvested capital generates returns that exceed the cost of shareholders' equity, thereby growing profits and linking these profits to further growth investments and shareholder returns. In the Second Medium-Term Management Plan, we aim to generate more effective and sustainable cash flow and achieve higher investment efficiency by ensuring thorough awareness of the capital cost not only for individual investment projects, but also for the Group as a whole.

Making appropriate use of cash

We have established standards and policies for the cash we generate. First, regarding the criteria for selecting investments, we set future prospects for new investments and profitability for existing investments. Next, we regard Return on Equity (ROE) as one of the key performance indicators and promote ROE management. In this context, we have set our ROE target at 14.0% or higher, driven by the improvement of profit in line with the improvement of business profitability. Finally, with regard to dividend policy, we have adopted a Dividend on Equity (DOE) ratio, and set the target consolidated dividend payout ratio at 50%, aiming for further returns to shareholders.

Cash allocation policy

Regarding the allocation of the cash obtained, the highest priority will be given to growth investments that can sustainably realize returns exceeding the capital cost, while also ensuring a balance with stable shareholder returns. With regard to growth investments, we will make investments that will create greater value, focusing on business, technology, human capital, and governance. We will also actively invest in research and development. As for shareholder returns, we will aim to further return profits to shareholders, taking into consideration future business development and the level of retained earnings.

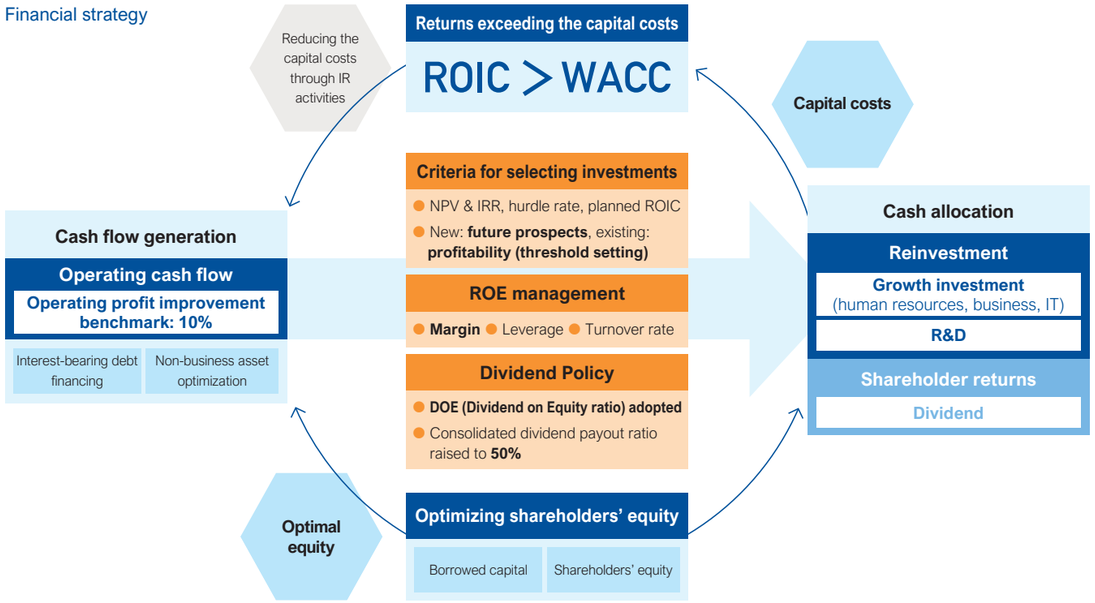
Approach and initiatives regarding capital costs

With regard to capital costs, we employ an equity spread to evaluate whether we are using our capital effectively, and we are working with an eye toward achieving a positive evaluation. We will also appropriately communicate the company's value and growth potential to investors through IR activities, thereby enhancing the company's credibility and transparency, which will lead to a lower capital cost.

Optimizing shareholders' equity

Our goal is to find the optimal balance between shareholders' equity and borrowed capital, minimize our capital costs, and maximize our corporate value while maintaining a sound financial position. As an optimal capital structure, the net debt-equity ratio (net DER) is used to evaluate the balance between corporate debt and shareholders' equity and to properly manage the net DER in order to maintain the company's financial soundness and improve capital efficiency.

Financial strategy



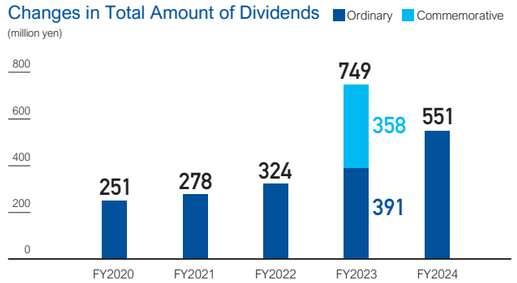
Investment Evaluation Committee

To grow our company, we need to be a pioneer and develop a process to generate new businesses and new business fields. At the same time, some risk is inevitable when starting something new. Therefore, decision-making and control processes are essential to protect corporate value and business. We established the Investment Evaluation Committee, chaired by an appointed director, to ensure that investments and capital injections are based on management judgement rules. To ensure that our business resources are allocated properly, the Committee assesses the appropriateness of capital injection, investments, R&D, and investment in business reforms.

Dividend Policy

Dividends for the next fiscal year will be 40 yen per share per year—20 yen as an interim dividend and another 20 yen as a year-end dividend. We estimate the consolidated dividend payout ratio will be 55.1%.

Changes in Total Amount of Dividends



* Our 50th anniversary commemorative dividend was provided in the FY2023.

Financial officer's comment



Toshifumi Nomura
Financial executive officer

We aim for sustainable growth and strive to maintain and improve a solid and secure financial position. During the First Medium-Term Business Plan for V2026, we have made good progress as planned, but specific measures are required to address issues such as quality control and reduction of long working hours. We also believe that strengthening our human capital and sustained investment in research will be the driving forces behind further growth in the future. In our growth investment strategy, priority will be given to reinvestment in human, business, and IT capital. As a company, we will strive to maximize our corporate value by continuing to conduct business activities that are true to the basics and achieve dramatic growth. We will continue to strive to meet the expectations of all stakeholders through transparent and sound financial management, always keeping in mind capital cost and our stock price.

Corporate Governance

The CUBE SYSTEM Group pursues the advancement of its corporate value through assurance of equity and transparency in business management and response to the expectations of its stakeholders by continual reinforcement of corporate governance.

Basic Approach

We believe that improvement to corporate governance is an important issue in fair and efficient business management and continuing to provide solutions and services that satisfy our customers. For this purpose, we are directing our efforts to the development of a business management system that ensures precise and transparent decision-making, swift business execution and proper and appropriate supervision and monitoring. At the same time, actions are taken to assure that our officers and employees comply with laws and regulations. Furthermore, our basic policy is to continuously improve corporate value to meet the expectations of our shareholders, customers and other stakeholders.

The Reasons for the Current Corporate Governance Structure

We are managing with a board of auditors which supervises our business management. At the same time, we have an executive officer system, in which directors are responsible for business decision-making and supervision and the executive officers are responsible for business execution. The majority of the auditors are outside auditors. Thus, they provide advice and recommendations from specialized perspectives at important management meetings and are promoting improvements to the business monitoring function. We have adopted the existing corporate governance structure to build a highly transparent and equitable management system by our outside directors and outside auditors with a high level of independence.

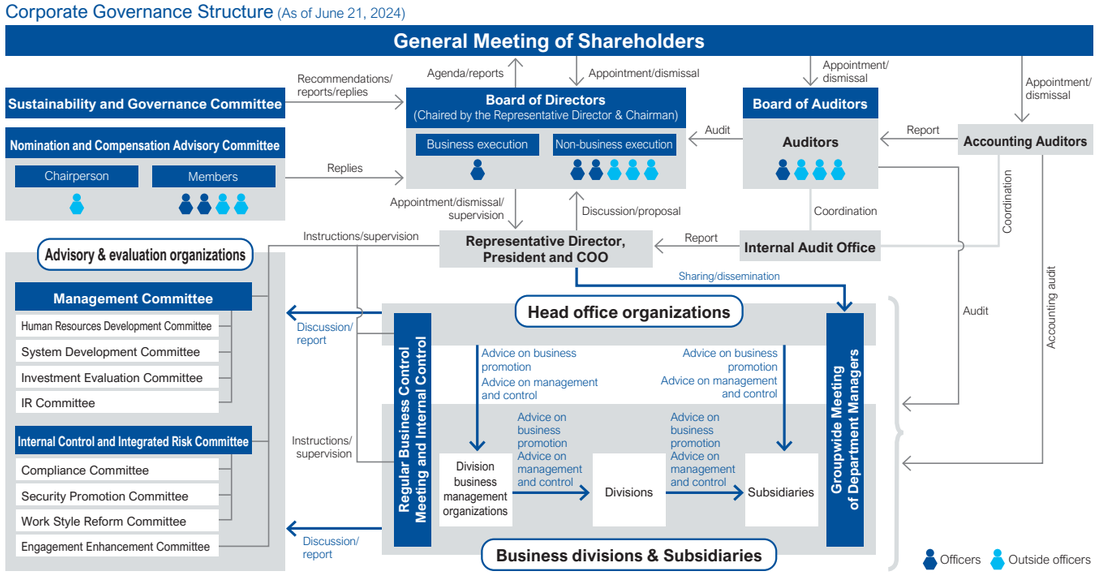
Board of Directors

Through efficient and practical corporate governance, the Board of Directors is responsible for our sustainable growth, corporate value improvement, and realization of the medium- to long-term increase in common interests of shareholders. The Board of Directors exercises its supervisory function and makes its optimal decisions based upon ethical judgement. The Board of Directors consists of six directors, of which three are outside directors, and is chaired by the Representative Director & Chairman. In addition to the monthly meeting of the Board of Directors, extraordinary meetings are held as needed to make decisions on important management issues and at the same time supervise business execution by each executive officer. In addition, outside directors are appointed to strengthen its supervisory function from a neutral and external perspective and ensure transparency and equity in business management.

Board of Auditors

The auditors audit the state of business execution and governance from a neutral standpoint and audit the business performance of the directors, participating in important meetings of the Board of Directors and Management Committee, etc. and investigating the status of our business operations and assets. The board of auditors consists of two full-time auditors and two part-time auditors. The majority are outside auditors. Through their audits, they provide appropriate opinions from various viewpoints to ensure our sustainable growth and the medium- to long-term improvement of corporate value.

Corporate Governance Structure (As of June 21, 2024)



Evaluation of the Effectiveness of the Board of Directors

To improve the functioning of the Board of Directors, we review evaluations of and opinions on the operation of the Board. Then we analyze and evaluate the effectiveness of the Board. Under the instructions of the Sustainability and Governance Committee, the voluntary advisory organ of the Board of Directors, the Secretariat of the Committee interviews all directors and auditors. After evaluating and analyzing the interviews, the secretariat discusses the evaluation, proposes measures to improve the effectiveness of the Board of Directors, and gives the Board advice and recommendations. For FY2024, all of the interview items evaluated showed that the Board of Directors is generally operated appropriately, assuring the effectiveness of the Board of Directors.

Evaluation results for FY2024

The Board of Directors was evaluated as having a high level of effectiveness with regard to its role and structure. In particular, the company's well-balanced Board member composition, active discussions among internal and outside officers, and transparency in the evaluation and compensation of the top management were described as key strengths of the company.

Issues and future efforts

Comments were made that deliberations on business strategies and business plans, optimization of business portfolios, and deliberations on appropriate allocation of management resources were insufficient. We will continue to implement measures to improve and enhance effectiveness.

Executive Compensation

Basic policy

We pursue continual growth and improvement of our corporate value as an IT business company by providing our customers, shareholders and other stakeholders with new value and a high level of technical capability and creativity. Our executive compensation is aimed at securing the outstanding management talent necessary for this purpose and functioning effectively as an incentive in achieving the anticipated results.

Compensation decision-making process

Compensation for directors is deliberated on by the Nomination and Compensation Advisory Committee, taking comprehensive account of each director's level of responsibility for our management and the progress of the Medium-Term Management Plan and other factors. In response to the Committee's proposals, the Board of Directors determines the compensation within the limits resolved at the General Meeting of Shareholders. A director's compensation comprises basic compensation, with stock-based compensation granted upon retirement. An auditor's compensation comprises basic compensation only, and is determined by the Board of Auditors within the limits resolved at the General Meeting of Shareholders.

Compensation standards

Executive compensation is decided based on various factors such as the general economic and social conditions, compensation levels at competing businesses, balance with employee compensation, the level of our business performance.

Fixed Compensation

a Basic compensation (for directors and auditors)

Basic compensation is paid for the role and responsibilities of each officer and is decided for each position based on the officer's business performance, the number of years in office and expected value, in balance with compensation levels at competing businesses and balance among the directors. 1/12 of the annual compensation is paid on a monthly basis.

b Stock-based compensation granted upon retirement (for directors other than outside directors)

As a long-term incentive designed to maintain a consistency of perspectives among officers and shareholders, fixed points are given to each director, corresponding to their rank, at a designated period of time after the end of each fiscal year, and equity compensation is awarded on resignation from office.

Variable Compensation

a Bonus (for directors holding concurrent executive officer posts)

As an incentive for short-term business performance within the scope and area of responsibility, an amount decided based on a comprehensive examination of performance against plan, performance compared to the preceding fiscal year, company business performance, etc., and based on the consolidated operating profit for the fiscal year in question, is paid at a certain period of time following the end of each fiscal year.

b Equity compensation linked to business performance (for directors holding concurrent executive officer posts)

As a medium-term incentive for achieving the targets of the Medium-Term Management Plan for the company-wide performance (financial), and quantitative and qualitative targets (non-financial), points corresponding to the degree of accomplishment of the targets in the Medium-Term Management Plan are given at a designated period of time following the end of the fiscal year, and equity compensation is issued at the end of the final year of the Medium-Term Management Plan.

Efforts in Developing Management Human Resources

Developing future management human resources is one of the most important elements in the management issues, and we are actively training potential candidates. We created a framework for the succession plan, which was then assessed by the Nomination and Compensation Advisory Committee. We are implementing initiatives to develop future management human resources at each job level.

Taking account of our management environment, we held discussions on the credentials and requirements for management human resources, selection approach, and development policy. Through these discussions, we formulated an ideal for our company's management human resources from the medium- to long-term viewpoint, and we are now providing education to selected candidates. This fiscal year, in particular, to realize team-based management that aims for further growth, we provided selected employees with a program that required sharing a vision and unifying the principles for action, to build a team culture founded on mutual understanding and trust. We are establishing the foundation to promote the coupling of management strategies and our business expansion. We continue to develop future management human resources suitable for our company founded on team-based business management.

List of Officers (as of June 21, 2024)

Directors



Representative Director & Chairman

Osamu Sakiyama

Date of birth: July 16, 1950

July 1972	Established the Company
October 1975	Director
May 1989	Representative Director and President
June 2015	Representative Director and President
April 2020	Representative Director & Chairman (current position)



Representative Director, President and COO

Masahiro Nakanishi

Date of birth: November 6, 1958

April 1982	Joined Nomura Computer Systems Co., Ltd., (current Nomura Research Institute, Ltd.)
October 2009	Deputy General Manager of Chubu Regional Headquarters
April 2017	Executive Officer of the Company
April 2018	Executive Managing Officer
April 2020	President and CDO (Chief Digital Officer)
June 2020	Representative Director (current position)
April 2024	President and COO (current position)



Director

Masaki Tochizawa

Date of birth: January 14, 1953

April 1975	Joined Nomura Computer Systems Co., Ltd., (current Nomura Research Institute, Ltd.)
April 2006	Senior Managing Director and Head of Kansai Regional Office
April 2008	Executive Officer of the Company
June 2008	Director
June 2012	Managing Director
June 2015	Director & Senior Executive Managing Officer
April 2020	Director (current position)



Director (Outside)

Takao Shiino

Date of birth: September 17, 1954

April 1979	Joined Nomura Research Institute, Ltd. (NRI)
June 2000	Member of the Board
April 2002	Member of the Board and Senior Corporate Managing Director
April 2007	Counselor
May 2007	Executive Director of Japan Information Technology Services Industry Association
April 2009	Director of the Japan Data Center Council
July 2010	Chair of The Green Grid Japan Liaison Committee
April 2012	Dean of Nomura School of Advanced Management
June 2012	Senior Managing Director
June 2015	Outside Director of the Company (current position)



Director (Outside)

Hanae Nagata

Date of birth: December 5, 1986

April 2012	Obtained a medical practitioner's license
April 2012	Joined Japanese Red Cross Musashino Hospital
May 2016	Industrial physician of Yahoo Japan Corporation
May 2018	Representative Director of PhileLife Co., Ltd. (current position)
June 2020	Outside Director of the Company (current position)



Director (Outside)

Takaaki Saito

Date of birth: December 3, 1971

April 1995	Joined Tohmatsu & Co. (current Deloitte Touche Tohmatsu LLC)
July 1999	Registered as a Certified Public Accountant
April 2001	Seconded to Fuji Bank, Limited (current Mizuho Bank, Ltd.)
July 2012	Named as a partner of Deloitte Touche Tohmatsu LLC
September 2021	CEO of SET THE DIRECTION Co., Ltd. (current position)
November 2021	Director of Takaaki Saito Certified Public Accountant Office (current position)
June 2023	Outside Director of the Company (current position)

Auditors



Full-time Auditor

Toshio Uchida

Date of birth: November 24, 1953

April 1975	Joined the Company
June 1988	Director
June 1995	Managing Director
June 2002	Senior Managing Director
June 2015	Director & Vice President
April 2018	Director
June 2023	Auditor (current position)



Full-time Auditor (Outside)

Tatsuo Nonaka

Date of birth: October 25, 1958

April 1982	Joined Mitsubishi Corporation
March 1996	Director & Treasurer of Mitsubishi Motors Credit of America, Inc.
February 2009	Deputy Director, Leasing Business Unit of Mitsubishi Corporation
May 2010	Executive Vice President & General Manager of Financial Affairs, Mitsubishi Auto Leasing Corporation
October 2018	Retired from Mitsubishi Corporation Transferred to Mitsubishi Auto Leasing Corporation
April 2021	Executive Vice President of Mitsubishi Auto Leasing
June 2021	Auditor of the Company (current position)



Auditor (Outside)

Yukako Miida

Date of birth: December 21, 1977

April 2000	Joined Sumitomo Marine & Fire Insurance Co., Ltd. (current Mitsui Sumitomo Insurance Company, Limited)
October 2001	Joined New Tokyo International
November 2005	Joined ChuoAoyama Tax Corporation (current PwC Tax Japan)
November 2008	Joined PricewaterhouseCoopers Aarata (current PricewaterhouseCoopers Japan LLC)
August 2011	Registered as a Certified Public Accountant
January 2023	Director of Miida Certified Public Accountant Office (current position)
June 2023	Auditor (current position)



Auditor (Outside)

Misato Fukushima

Date of birth: December 21, 1983

December 2009	Registered as an attorney
January 2010	Joined Nishimura & Asahi (current position: Counsel)
September 2016	Seconded to JX Nippon Oil & Energy Asia Pte. Ltd.
August 2021	Seconded to JERA Co., Inc.
June 2024	Auditor of the Company (current position)

Executive Officers (As of April 1, 2024)

President and COO **Masahiro Nakanishi**	Executive Managing Officer **Kenichiro Iida**	Executive Managing Officer **Hideaki Nishimura**	Executive Managing Officer **Kenkichi Kumagai**
Executive Managing Officer **Minoru Odaka**	Senior Executive Officer **Toshiro Kato**	Senior Executive Officer **Hirofumi Kitagaki**	Senior Executive Officer **Shin Kanai**
Senior Executive Officer **Koji Aihara**	Senior Executive Officer **Daiki Wakamatsu**	Executive Officer **Satoshi Yoneda**	Executive Officer **Ryo Ota**
Executive Officer **Toshifumi Nomura**			

Officer Skill Matrix (as of June 21, 2024)

Name	Attributes	Position in the Company	Nomination and Compensation Advisory Committee	Areas where expertise can be especially demonstrated						
				Governance/ Business management	Laws and legislation/ Compliance	IT services	DX/New technology/ Consulting	Production technology/ Quality management	Finance/ Sustainability	Human resources/ Health and Productivity Management
Osamu Sakiyama		Representative Director & Chairman	Member	○		○				
Masahiro Nakanishi		Representative Director	Member				○	○		○
Masaki Tochizawa		Director				○				
Takao Shiino	Independent Outside	Outside Director	Chairperson	○		○	○			
Hanae Nagata	Independent Outside	Outside Director	Member							○
Takaaki Saito	Independent Outside	Outside Director	Member	○	○				○	
Toshio Uchida		Full-time Auditor				○		○		○
Tatsuo Nonaka	Independent Outside	Full-time Auditor			○				○	
Yukako Miida	Independent Outside	Auditor							○	
Misato Fukushima	Outside	Auditor		○	○					

Reasons for selecting skills

Governance/Business management

In order to maintain an appropriate corporate governance system, engage in fair and efficient management, and realize important decision-making and the formulation and promotion of business strategies that contribute to improving corporate value over the medium- to long-term, a wealth of expertise and experience in overall corporate management and business strategies are necessary skills.

Laws and legislation/Compliance

In order for each employee, as a self-reliant business person, to live up to the trust of all stakeholders and realize sound and sustainable enhancement of corporate value, knowledge of compliance and strict compliance to laws and regulations, which is the basis of corporate activities, is a necessary skill.

IT services

In order to thoroughly understand the SI and System Enhancement Business that are the foundation of our company, and to provide sustainable services and contribute to the development of our customers' businesses, a wealth of knowledge and experience in these IT services are necessary skills.

DX/New technology/Consulting

In order to have the experience to contribute to solving social issues from the customer's perspective and to promote company-wide digital transformation (DX), experience in the use of advanced technologies and knowledge of consulting are necessary skills.

Production technology/Quality management

In order to realize the provision of high quality services that satisfy our customers based on our basic policy of "Customer First," manufacturing through production technology and knowledge to ensure quality are necessary skills.

Finance/Sustainability

Turning the social challenges our clients face into business opportunities, achieving sustainable growth, and making the necessary investments require knowledge of financial accounting that supports a sound and solid financial foundation.

Human resources/Health and Productivity Management

In order to reform the human resources system to support employees' taking on challenges and self-realization, propose new ways of working, improve brand value, etc., and solidify the foundation for sustainable growth, a wealth of expertise and experience in human resources, human resource development, and labor affairs are necessary skills.

Risk Management

To achieve sustainable growth and improve the corporate value of the CUBE SYSTEM Group, we identify risks that may be involved in our business activities and implement continuous risk management for the entire Group.

Policy on Internal Control and Integrated Risk Committee

The Group has established an internal control system in order to appropriately identify risks, strive to prevent the occurrence of losses, and keep the impact of any losses within reasonable limits. To strengthen continuous improvement and reinforcement of the internal control function, we have appointed officers in charge of internal control and integrated risk management, along with establishing an office for the supervision of risk management.

The level of risk and its importance are evaluated from the four perspectives of compliance with laws and regulations, trustworthiness of our financial reports, efficiency and effectiveness of business operations and resources/assets. We develop and introduce measures that are required for groupwide implementation.

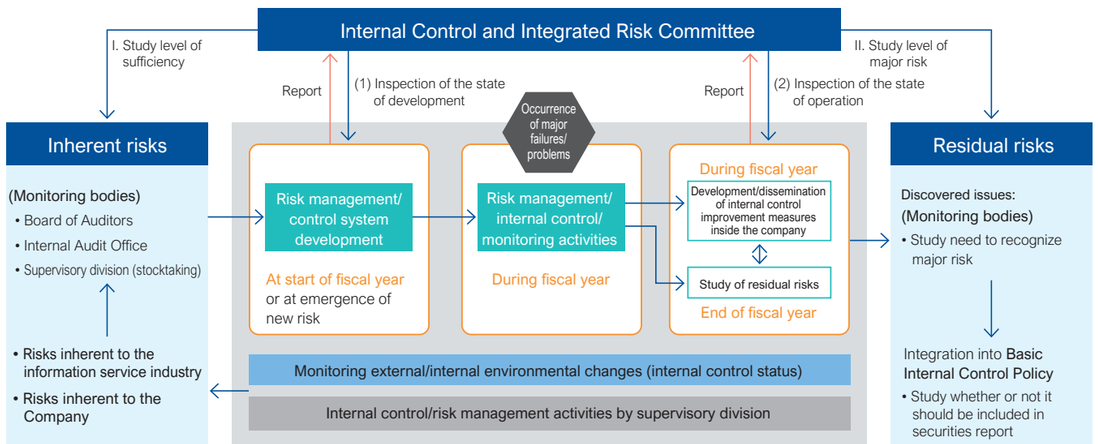
For the maintenance and improvement of internal control, we monitor the state of operation and conduct reviews and deliberations under the Internal Control and Integrated Risk Committee. The findings and conditions are reported to the Board of Directors to reinforce and improve the groupwide internal control system.

Target Themes and Actions

	Themes	Response Measures
1	Natural disasters/BCP/IT-BCP Establishment of risk management system	● Various training exercises assuming a disaster (evacuation, safety check, disaster response headquarters, support for employees with disabilities) ● Renovating aging equipment and systems ● Conversion into cloud-based core database ● IT-BCP support related to medium-term investment in IT system for in-house use
2	Information security and information management Cyber security measures	● Verify the effectiveness and efficiency of entrance passes and PC management, and revise rules based on the results ● Provide training for all employees on how to respond to targeted email attacks
3	Compliance with laws and regulations	● Review rules in line with various legal amendments (Labor Standards Act, Financial Instruments and Exchange Act) and take action based on the revised process ● Review and conclude contracts with business partners in accordance with the Economic Security Promotion Act
4	Labor affairs management Manager awareness reform	● Continue labor education for managers ● Review control rules and provide a weekly list of long-hours workers to department/office managers and above
5	Ethical conduct	● Review the internal reporting system and take action based on the reporting process ● In-house notification and training ● Establish a contact point for business partners and publicize it
6	Greater information transmission and communication	● Measuring effectiveness through utilization of Wevox* ● Based on the Wevox results, the Engagement Enhancement Committee will consider measures (clarify the targets)
7	Human capital Retention	● Continue follow-up measures for employees who have been with the company for 1 to 7 years (new graduates and midcareer hires)

* Engagement analysis tool provided by Atrae, Inc.

Internal Control and Integrated Risk Committee: Internal Control System



Policy on Project Risk Management

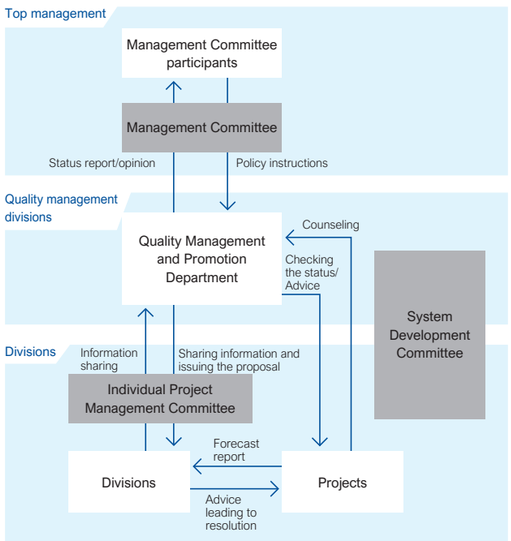
In management of our system solution services, we have established practical guidelines and are promoting risk recognition among all employees with groupwide monitoring for early detection of and a swift response to project risks.

Structure of Project Risk Management

Project risk management is classified into four processes: project estimate proposal, planning, implementation and completion. In each of the processes, risk is managed by defining what the project should do, what the divisions/departments should do and what the Quality Management and Promotion Department should do as part of our groupwide function.

Specifically, we have clarified project management roles and established a meeting body for project risk management to manage projects properly according to the level of risk (monitoring levels and response difficulties) and the condition and status of the project.

Project Risk Management System



Risk assessment

We set risk ranks for each project for effective and smooth project monitoring. In particular, projects that fall under groupwide monitoring require groupwide monitoring and must be reported to the System Development Committee or the Individual Project Management Committee. We also conduct risk assessment at each project site using our own risk assessment sheet, as part of our efforts to assess various risks both from management and on-site perspectives.

Response to risks

In addition to monitoring the state of the project with each division, risk sharing and the operations needed to resolve issues, we monitor projects groupwide depending on the risks involved in the project through activities of the System Development Committee.

System Development Committee

In providing solutions services, the System Development Committee assesses the various processes, including project estimate proposal, planning, implementation and completion for each project. In addition, the results are shared with top management for better decision-making and support by the Company to contribute to effective project management.

Activities by Internal Audit Office

We have an Internal Audit Office as an independent organization directly under the control of the President and COO. This office regularly conducts an internal audit of each CUBE SYSTEM department, as well as group companies. The office also performs ad hoc internal audits as required. Further, they are responsible for verification, analysis, and assessment of whether the group's business activities are appropriately and rationally carried out in accordance with the management policies, plans, and regulations, and whether they are functioning duly and efficiently toward management targets, such as increasing corporate value and sound business development.

The results of internal audits are regularly reported to the President and COO, as well as to directors, auditors, and department and office managers, and related records are stored in an appropriate manner. Also, the representative director, auditors, and accounting auditors closely collaborate to exchange information and opinions to continuously improve the effectiveness and efficiency of internal audits and internal controls.

Information Security

Because we handle information assets from customers in our business operations, information security is a major management issue. We see it as our responsibility to ensure the safety of customer's information assets as well as our own.

Basic Approach and Policy

In providing solutions services, we recognize that proper handling of the information assets of private or corporate customers and our own information assets is essential in building and maintaining trust with our customers.
For this purpose, we have established a basic policy on information security, defining the requirements in accordance with the established official guidelines, and we are putting this policy into practice.

An information security management structure led by officers in charge of information security has been established for planning, execution and verification of measures to manage the secure and maximum utilization of information assets. In addition, we develop human resources with high ethical standards founded on awareness and our responsibility as an IT company.

We are working to ensure the proper protection and use of personal information based on our Personal Information Protection Policy.

Information Security Policy
https://www.cubesystem.co.jp/en/security/

Management System (ISMS)

Based on laws, regulations and official guidelines on information security, we have established the Regulations on Confidential Information Management and the Information Security Guidelines that define the requirements and organizational management of information security at the Company and have managed our information security management system.

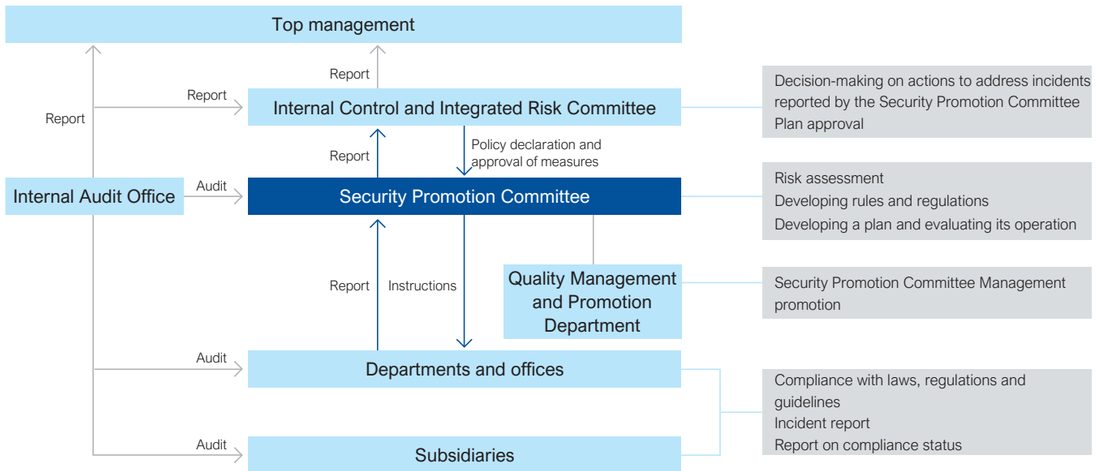
Information Security Management System

We have established an Information Security Policy and Information Security Guidelines for ongoing management of our groupwide security measures. As part of these efforts, in December 2003, we acquired certification under the Information Security Management System (ISMS) conformity assessment scheme and to the BS7799 standard. In February 2006, migration to ISO/IEC 27001 has been approved for continuing certification. Our related company, CUBE SYSTEM VIETNAM CO., LTD. has also acquired ISO/IEC 27001 certification. We continue to strive to further improve our security level.

ISO/IEC 27001 Certification Details

Date of registration	December 23, 2003
Scope of registration	Software development design and maintenance services
Certification standard	ISO/IEC 27001: 2014
Registered organization	CUBE SYSTEM INC. HOKKAIDO CUBE SYSTEM INC.
Registration number	JUSE-IR-152
Expiry date	September 28, 2027
Certification body	The Union of Japanese Scientists and Engineers (JUSE) ISO Center

Information security management structure



Information security management structure

We have established a Security Promotion Committee for our information security management structure to conduct risk assessments for the entire organization, develop rules and regulations and review measures vis-à-vis internal and external risks.

Committee members have been selected from the managers of our various organizations, departments and offices for cross-sectoral activity.

Additionally, the Internal Control and Integrated Risk Committee, the supervisory body for the Committee, is responsible for reporting developments to top management and for deciding actions to be taken in the event of security risks and incidents.

Response to Incidents

Should a security incident occur, our actions to identify the cause and prevent any recurrence are determined by the incident rank in compliance with the information security guidelines.

Measures against Incidents

Response in the event of an incident	For response in the event of a security incident, a security-related reporting channel has been defined clearly for each division and department/office, to ensure swift reporting and response. We are required to report and respond promptly even when there is only a small risk of a security incident.
Measures against cyberattacks	In the event of a cyberattack, a dedicated response team takes swift action to localize and curb the spread of damage. Specifically, system measures are in place to give protection, including installation of virus detecting functions, hardware encryption, installation of IT management & control software (SKYSEA Client View), firewalls and two-step identity recognition. We conduct training on targeted email attacks so that we can respond quickly in the event of an attack.

Measures against cyberattacks

As security risks from external cyberattacks increase, we have established strict rules for changing passwords according to the password policy and for using web services such as cloud services. Ensuring groupwide compliance with these rules prevents information leaks as a result of unauthorized access and other similar breaches.

Information Security Training

We regularly conduct information security training based on our information security rules and recent developments in information security to raise employee awareness of information security.

In addition, we implement orientation training on security rules at our offices and project sites for new project members (including those from business partners).

Information Security and Compliance Handbook

To ensure information security and compliance, we have published a handbook to ensure comprehensive understanding and awareness of the rules.

To maintain awareness of information security and compliance rules in the course of business operations, we check them monthly in all relevant organizations and projects to ensure that they are operating in compliance with the rules. We update the Information Security Compliance Handbook each fiscal year in step with the emergence of new internal and external risks.

The Handbook is distributed to our employees and to all officers and business partners participating in our projects, to ensure that they are always aware of the content and availability of the Handbook in the course of their work so that they can use it in the event of emergency, to ensure swift action and to maintain the necessary security level.

Handling Personal Information

We are protecting and using personal information obtained from business partners, shareholders, employees, etc., in accordance with our Personal Information Protection Policy. In handling personal information, we comply with relevant laws and official guidelines, with proper measures that limit the acquisition and use, and ban the use of the information for purposes other than the objectives. Except when permitted by laws, we ensure that personal information is not disclosed or provided to third parties without the consent of the person in question.

Specific personal information including My Number (personal identification number) is handled safely and appropriately in accordance with our Personal Information Privacy Policy.

Personal Information Protection Policy
https://www.cubesystem.co.jp/en/privacy/

Compliance

We regard compliance with laws and regulations as a top priority issue in business management and we work to improve and reinforce our compliance systems.
Additionally, we have established our own policy on human rights, so that our businesses are managed with attention given to the basic human rights of our employees, our business partners and all other stakeholders.

Basic Approach

We regard compliance as one of our most important management issues and we are committed to our comprehensive implementation as the base for our business management. Compliance is not only simple respect for and observation of laws and regulations but responding to the trust of all of our stakeholders.

We are committed to honesty, equity and transparency in our business activities through actions by each and every one of our self-reliant employees demonstrating respect for the values and ethics required of a good corporate citizen and member of society.

Basic Policy on Compliance
https://www.cubesystem.co.jp/en/csr/compliance/

Compliance Code of Conduct

Level I: Conduct in accordance with our corporate culture
Level II: Conduct in accordance with ethics, social norms, etc.
Level III: Conduct in line with internal control and risk management in compliance with internal regulations and manuals, etc.
Level IV: Conduct in accordance with laws and regulations, etc.

Compliance Initiatives

Internal whistleblowing system

We accept reports of misconduct or problems related to compliance from the internal whistleblowing office. In addition to the existing reporting channel, we have established an internal whistleblowing system for swift reporting of misconduct, etc. via a third-party organization that functions as a whistleblowing counseling office. There were three reports in FY2023. The counseling office has created a system for appropriate action on inquiries and reports regarding organizational or personal violation of laws, to promote early identification and correction.

Training

We provide annual compliance training for all employees. The training program is designed not only to reinforce the importance of compliance but also to raise greater awareness of compliance, greater understanding of the issues by each employee through discussion and to implement more comprehensive compliance management.

Compliance Committee activities

The Compliance Committee arranges various activities each year for compliance training and for continuous improvements of all compliance activities.

In addition, employees from each division are appointed as compliance leaders in their respective departments to promote activities in the area. The Compliance Committee conducts reviews and introduces ideas from a variety of perspectives to improve compliance activities.

Training and case study sharing for organizational managers

In FY2023, we held a childcare leave system information session in addition to company-wide compliance training.

Legal affairs study sessions

The legal training included study sessions on various topics such as “Obligations and Responsibilities in System Development” and “The Fundamentals of Intellectual Property Rights and Generative AI.” We maintain the training videos in our archives and share this information across the group.

Compliance Manual

We publish our own Compliance Manual and Compliance Handbook as one of our compliance awareness activities for use in training programs, etc. The Compliance Committee reviews and revises these publications appropriately to improve our compliance activities.

Compliance comments box—Hotto Box

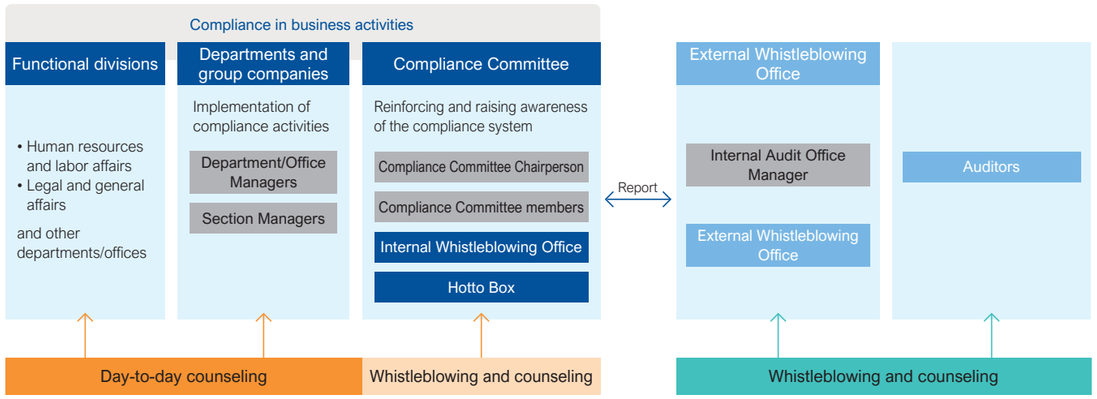
Our Hotto Box is a contact point through which employees can casually raise any whistleblowing concerns related to compliance issues. Employees can submit cases that they wish to consult on or ask questions about to Hotto Box using an internal communication tool, and a contact person responds to the issue after clarifying the facts. The response results are then reported to the poster. When possible, the issue may be included in training materials as a sample case. To ensure the confidentiality of the poster, the responsible persons are only appointed from employees of our Compliance Committee. Also, the poster can remain anonymous. Hotto Box is more accessible than our previous whistleblowing system. It also allows the whistleblower to remain anonymous, which means that unknown violations of compliance could be identified when reported. We plan to utilize Hotto Box to improve our business activities across the Group.

Initiatives Regarding Human Rights

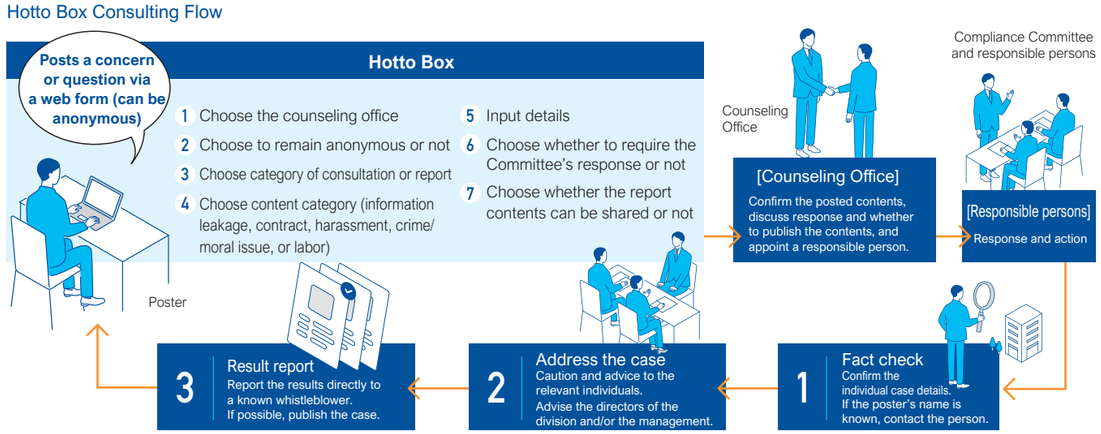
We recognize that respect for human rights is the basis for sustainability management. In accordance with our Sustainability Management Basic Policy and in order to clarify our philosophy on human rights, we established a Human Rights Policy in November 2021 based on international standards and principles including the International Bill of Human Rights and the Guiding Principles on Business and Human Rights, to ensure that our businesses respect human rights. Under the policy of “support international norms on human rights and respect human rights in all our business activities,” we prohibit all forms of discrimination and never allow harassment. In addition, we do not condone forced labor in any form. To further ensure that respect for human rights is firmly established in our business, we plan to implement human rights due diligence for ourselves and our group companies. We are committed to making continued improvements in this area.

Human Rights Policy
https://www.cubesystem.co.jp/en/csr/human_rights/

Compliance Counseling and Action Flow



Hotto Box Consulting Flow



Major Financial Data (Consolidated)

Fiscal year: April 1 to March 31 next year

Please also refer to our Annual Securities Report.

IR Information: Annual Securities Report, etc.
https://www.cubesystem.co.jp/en/ir/library/yuho/

(Unit: thousand yen)

	Japanese GAAP									
	1st Step V2020	2nd Step V2020			3rd Step V2020		1st Step V2026			
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	**FY2024**
Consolidated Statements of Income										
Net sales	12,527,151	12,622,672	12,899,073	13,559,365	14,325,325	14,708,096	14,788,890	16,099,838	16,325,714	**18,021,432**
Gross profit	2,035,419	2,146,479	1,985,868	2,344,212	2,448,834	2,503,098	2,840,663	3,450,166	3,570,107	**3,922,190**
Total selling, general and administrative expenses	1,071,048	1,197,015	1,204,853	1,489,096	1,527,243	1,544,085	1,665,796	2,032,280	2,117,612	**2,386,089**
Operating profit	964,370	949,463	781,015	855,116	921,590	959,012	1,174,867	1,417,886	1,452,495	**1,536,100**
Ordinary profit	980,606	960,090	811,401	892,818	959,928	976,182	1,295,324	1,432,724	1,480,455	**1,590,860**
Profit attributable to owners of parent	594,252	628,914	551,317	567,491	596,613	525,318	844,004	944,696	989,672	**1,067,147**
Consolidated Balance Sheets										
Current assets	5,024,867	5,221,694	5,549,653	5,763,971	6,156,586	6,241,570	7,253,810	7,805,500	9,703,153	**9,978,462**
Non-current assets	1,873,866	2,103,085	1,853,954	1,771,581	1,989,317	1,805,711	2,190,382	2,259,029	2,844,369	**3,509,286**
Total assets	6,898,734	7,324,780	7,403,608	7,535,552	8,145,904	8,047,282	9,444,193	10,064,530	12,547,523	**13,487,748**
Current liabilities	1,942,400	1,790,876	1,713,470	1,860,775	2,249,681	1,874,225	2,357,766	2,199,418	2,188,844	**2,459,309**
Non-current liabilities	310,715	815,147	824,603	518,646	532,770	540,267	571,106	650,792	742,130	**894,609**
Total liabilities	2,253,115	2,606,023	2,538,073	2,379,422	2,782,451	2,414,493	2,928,872	2,850,211	2,930,974	**3,353,919**
Total net assets	4,645,618	4,718,757	4,865,534	5,156,130	5,363,452	5,632,788	6,515,320	7,214,319	9,616,548	**10,133,829**
Total liabilities and net assets	6,898,734	7,324,780	7,403,608	7,535,552	8,145,904	8,047,282	9,444,193	10,064,530	12,547,523	**13,487,748**
Consolidated Statements of Cash Flows										
Cash flows from operating activities	503,348	527,316	936,428	388,839	773,119	747,331	1,043,068	1,015,804	891,958	**1,044,633**
Cash flows from investing activities	(307,421)	33,243	94,825	28,280	46,902	25,957	58,501	(134,344)	(304,715)	**(259,846)**
Cash flows from financing activities	(439,289)	(241,980)	(610,986)	(392,054)	(531,081)	(339,283)	(215,207)	(324,105)	1,102,321	**(672,007)**
Effects (decrease) of exchange rate change on cash and cash equivalents	3,311	(9,315)	(6,057)	(1,381)	(4,031)	(7,796)	4,169	10,831	(1,935)	**(1,115)**
Net increase (decrease) in cash and cash equivalents	(240,050)	309,263	414,210	23,684	284,907	426,209	890,531	568,185	1,687,629	**111,664**
Cash and cash equivalents at end of period	2,098,734	2,407,998	2,822,208	2,845,893	3,130,800	3,557,010	4,447,541	5,015,727	6,703,356	**6,815,020**
Per Share Information										
Profit per share (yen)	39.75	43.22	39.15	40.59	43.25	38.69	62.11	69.82	70.35	**70.39**
Net assets per share (yen)	316.67	322.76	346.47	372.23	393.29	411.96	476.52	531.14	634.29	**668.41**
Dividends per share (yen)	14.00	14.00	14.00	16.00	16.00	18.00	20.00	23.00	50.00	**35.00**
Financial Ratios										
Equity ratio (%)	67.0	64.1	65.4	68.1	65.4	69.6	68.6	71.2	76.6	**75.1**
Return on equity (%)	13.2	13.5	11.6	11.4	11.4	9.6	14.0	13.8	11.8	**10.8**
Total asset turnover ratio (times)	1.8	1.7	1.7	1.8	1.8	1.8	1.6	1.6	1.3	**1.3**
Financial leverage (times)	1.5	1.6	1.5	1.5	1.5	1.4	1.5	1.4	1.3	**1.3**
Return on assets (%)	14.5	13.5	11.0	12.0	12.3	12.3	14.8	14.7	13.1	**12.2**
Ratio of operating profit on sales (%)	7.7	7.5	6.1	6.3	6.4	6.5	7.9	8.8	8.9	**8.5**
Ratio of earnings on sales (%)	4.7	5.0	4.3	4.2	4.2	3.6	5.7	5.9	6.1	**5.9**
Dividend payout ratio (%)	35.2	32.4	35.8	39.4	37.0	46.5	32.2	32.9	71.1	**49.7**

* With the application of the Accounting Standards on Business Combinations (ASBJ Statement No. 21, September 13, 2013), profit has been defined as "profit attributable to owners of parent," starting in FY2016.
* Stock split at a ratio of 1:2 was implemented on October 1, 2014. However, this stock split is assumed to have been executed at the start of FY2015. Hence, current profit per share and net assets per share for each fiscal term have been calculated accordingly.
* The impact of the 1:2 ratio stock split in October 1, 2014 has been applied retroactively to the annual dividend per share.
* Dividend per share and dividend payout ratio for FY2023 include our 50th anniversary commemorative dividend.

ESG Data

Environment

CO_2 Emissions

	FY2019	FY2020	FY2021	FY2022	FY2023
Total emissions (Scope 1) (t-CO_2e)	46	55	49	48	50
Total emissions (Scope 2) (t-CO_2e)	137	135	244	251	187
Scope 1 + 2 (t-CO_2e)	183	189	293	299	237
Total emissions (Scope 3) (t-CO_2e)	—	—	5,326	5,074	6,387

* Includes Osaki Wiz Tower (Tokyo Head Office) only before FY2020. For FY2021 and later, all group companies are covered.
* Emissions under Scope 1, Scope 2 and Scope 3 have been calculated using the following equations. (The emission factor is as set in the Act on the Promotion of Global Warming Countermeasures)
  Scope 1 emissions: Consumption of each fuel type x Energy conversion factor x Emission factor
  Scope 2 emissions: Electricity usage at each site x emission factor of each power company
  Overseas emission factors are based on the IGES List of Grid Emission Factors.
  Scope 3 emissions: Value of each category x Total of emission factors
* Calculation for Scope 3 started from FY2021.
* Overseas emission factors were changed from IEA Emission Factors to IGES List of Grid Emission Factors and Scope 2 emissions were revised from FY2021 onward.

Energy Consumption

	FY2019	FY2020	FY2021	FY2022	FY2023
Energy consumption (Electricity kWh)	301,343	304,310	571,860	450,306	679,757

* Includes Osaki Wiz Tower (Tokyo Head Office) only before FY2020. For FY2021 and later, all group companies are covered. Consumption for FY2021 has been revised.

Society * Non-consolidated data

Proportion of Employees

		FY2019	FY2020	FY2021	FY2022	FY2023
Number of employees (persons)	Male	447	461	447	446	456
	Female	144	164	192	198	210
By region (persons)	Domestic	588	622	634	640	666
	Ho Chi Minh	2	2	2	2	3
	Shanghai	1	1	3	2	2
Gender ratio	Male	76%	74%	70%	69%	69%
	Female	24%	26%	30%	31%	31%
Number of managerial personnel (persons)	Male	102	106	104	99	105
	Female	4	5	7	7	12
Number of new graduate new hires (persons)	Male	33	39	33	37	47
	Female	19	24	24	25	18
Number of midcareer hires (persons)	Male	11	8	4	11	23
	Female	7	7	9	9	15
Number of retired employees (persons)		54	40	57	88	75
Average length of employment (years)		8.2	8.3	8.5	8.6	8.5
Average annual compensation (in thousand yen)		5,079	5,017	5,260	5,098	5,254
Job retention rate for new graduate hires after three years		78%	65%	83%	83%	73%

* The number of employees includes those on overseas assignments.

Employment of Employees with Disabilities

	FY2019	FY2020	FY2021	FY2022	FY2023
Number of employees with disabilities (persons)	9.5	10	10	14	12
Rate of employees with disabilities	1.6%	1.6%	1.6%	2.1%	2.0%

FY2023 Childcare Leave-Taking Status

	Total	Male	Female
Number of employees qualified for childcare leave (persons)	24	17	7
Number of employees who took childcare leave (persons)	18	11	7
Number of employees who returned from childcare leave during the term of this report (persons)	16	10	6
Number of employees who are enrolled more than 12 months after returning from childcare leave (persons)	10	5	5
Job return rate after childcare leave	94.1%	100%	85.7%
Job retention rate after childcare leave	90%	100%	80%

Health and Productivity Management

	FY2019	FY2020	FY2021	FY2022	FY2023
Number of workplace accidents (cases)	1	0	0	0	0
Workplace accident rate*	0%	0%	0%	0%	0%

* Figure represents the number of either fatal accidents or incidents necessitating four or more days' leave due to a casualty accident.

Annual Training Cost per Employee

	FY2019	FY2020	FY2021	FY2022	FY2023
Training cost per employee (thousand yen)	85	60	99	105	152

Governance * Non-consolidated data

Proportion of Directors

	FY2019	FY2020	FY2021	FY2022	FY2023
Total directors (persons)	7	7	7	7	6
Outside directors (persons)	2	3	3	3	3
Female directors (persons)	0	1	1	1	1

Board of Directors Meetings

	FY2019	FY2020	FY2021	FY2022	FY2023
Number of meetings (times)	15	15	17	19	17
Average attendance rate for all directors	100%	100%	100%	100%	100%
Average attendance rate for outside directors	100%	100%	94%	96%	100%
Average attendance rate for outside auditors	100%	100%	100%	100%	100%

Board of Auditors Meetings

	FY2019	FY2020	FY2021	FY2022	FY2023
Number of meetings (times)	15	18	19	14	13
Average attendance rate for all auditors	100%	100%	100%	100%	100%
Average attendance rate for outside auditors	100%	100%	100%	100%	100%

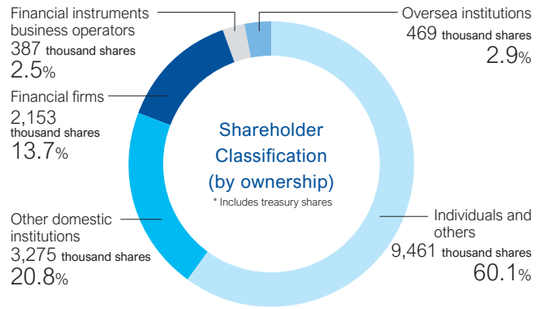
Corporate Information

Corporate Information

Company name	CUBE SYSTEM INC.
Head office	Osaki Wiz Tower, 2-11-1 Osaki, Shinagawa-ku, Tokyo
Established	July 5, 1972
Share capital	1.4 billion yen
Total number of employees (consolidated)	952 (as of April 1, 2024)

Stock Information (as of March 31, 2024)

Total number of issuable shares	22,364,000 shares
Total number of issued shares	15,747,268 shares
Number of shareholders	9,886 people



Major Shareholders (Top 10)

Name of shareholder	Number of shares held (thousands)	Shareholding ratio (%)
Nomura Research Institute, Ltd.	3,178	20.18
CUBE SYSTEM Employee Stockholding Meeting	1,483	9.42
The Japan Master Trust Bank, Ltd. (Trust Account)	1,167	7.41
Osamu Sakiyama	1,121	7.12
The Japan Master Trust Bank, Ltd. (Executive Remuneration BIP Trust Account)	586	3.72
Akemi Onuki	401	2.54
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	254	1.61
Custody Bank of Japan, Ltd. (Trust Account)	229	1.45
Toshio Uchida	215	1.37
Toshikuni Sato	199	1.26

Offices



Domestic offices (in Japan)

❶ Head Office
7F, Osaki Wiz Tower, 2-11-1 Osaki, Shinagawa-ku, Tokyo

❷ West Japan Solution Division
6F, Ichigo Sakaisuji Honmachi Building, 1-6-16 Honmachi, Chuo-ku, Osaka

❸ Nagoya Office
7F, Kumada Shirakawa Building, 2-11-19 Sakae, Naka-ku, Nagoya, Aichi

❹ Fukuoka Office
4F, Hakata Ekimae Parkside Building, 4-11-19 Hakata Ekimae, Hakata-ku, Fukuoka, Fukuoka

Related companies

❺ HOKKAIDO CUBE SYSTEM INC.
6F, Pacific Marks Sapporo Kita-Ichijo, 7-4-4 Kita-Ichijo Nishi, Chuo-ku, Sapporo, Hokkaido

❻ CUBE SYSTEM VIETNAM CO,. LTD.
6F, JVPE Building, Quang Trung Software City, Tan Chanh Hiep Ward, Dist 12, Ho Chi Minh City, Vietnam

❼ CUBE SYSTEM SHANGHAI CO,. LTD.
Room 605, No.2 Building, No.641 Tianshan Road Changning District, Shanghai City, China (Shanghai Hui Ning Zhi Gu Science Park)