

CUBE SYSTEM

—
Integrated Report 2021

CUBE SYSTEM

March 2022



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



Our Commitment in Our Name

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



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

Innovativeness

As an independent systems integrator, we accumulate leading-edge technologies and knowhow in various fields.

Humanity

We engage in candid dialogue with customers through one-to-one interaction, and develop human resources with high level communication skills.

Vitality

As an independent business creator, we take on challenges and pursue what is best for our customers, for our partners, and ultimately, for ourselves.

Internationality

We are building a global and versatile business model, focusing on collaboration with overseas business partners and offshore software development.

Technology

We are acquiring a range of elemental technologies based on our wide-ranging in-depth knowledge and expertise.

Youthfulness

Through continuous reinvention, we are developing a youthful, adaptable corporate organization and culture by valuing self-reliance and the initiative of our employees.

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.

The objective of the report is to give greater clarity in information disclosure so that it is easier for our shareholders, investors and other stakeholders to understand how our group plans to achieve sustainable growth.

- Organizations covered: CUBE SYSTEM INC., and its consolidated subsidiaries in Japan and overseas
- Period covered: FY2020 (April 2020–March 2021)
*Some information not related to the fiscal term may be included in the report.
- Date of publication: March 1, 2022
- Frequency of publication: Annual
- Information disclosure policy:
We 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)

GRI Standards, Global Reporting Initiative (GRI)

Important notes regarding forecasts

Business plans, forecasts and strategies in the report are founded on decision-making and assumptions made based on the data available at the date of publication.

Please accept that actual business performance may deviate significantly from forecasts as a result of changing circumstances.

Publication Department:

Business Planning Dept.

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

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ESG Initiatives

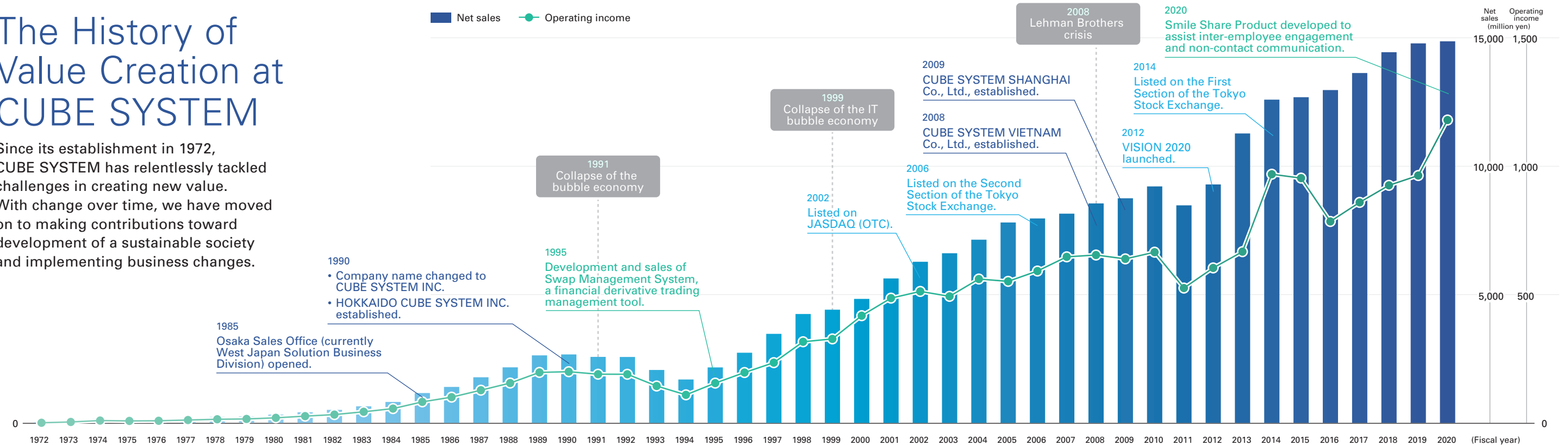
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The History of Value Creation at CUBE SYSTEM

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



July 1972
Customer Engineers Co., Ltd., established.
The company was established in Shinagawa-ku, Tokyo, for software development and system administration and management services.

April 1985
Osaka Sales Office opened.
The office was opened in Osaka City, Osaka to explore business in the Kansai region and boost the scale of business for the entire company.

October 1990
Company name changed to CUBE SYSTEM INC.
The company name was changed to bring greater clarity to its business field and management philosophy and to pursue further business growth.

October 2002
Listed on JASDAQ (OTC).
CUBE SYSTEM stocks were listed on JASDAQ.

March 2014
Listed on the First Section of the Tokyo Stock Exchange.
Stock listing was changed to TSE First Section 12 years after JASDAQ listing.

May 2019
Nagoya Office opened.
An office was opened in Nagoya City, Aichi to expand business in the Chubu region and expand its solutions service business.

Business expansion

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. 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 strengthened business in the Tohoku and Hokkaido regions.

May 2005
Capital and business partnership agreement concluded with Systemcreate Co., Ltd.
A capital and business partnership agreement was concluded with Systemcreate 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 a consolidated subsidiary, CUBE SYSTEM SHANGHAI Co., Ltd.) 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 business growth utilizing AI, IoT and blockchain technologies.

August 2018
Oracle Certification Award 2018
The company placed first in the Oracle Cloud Platform (PaaS/IaaS) category of the Oracle Certification Awards 2018.

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.

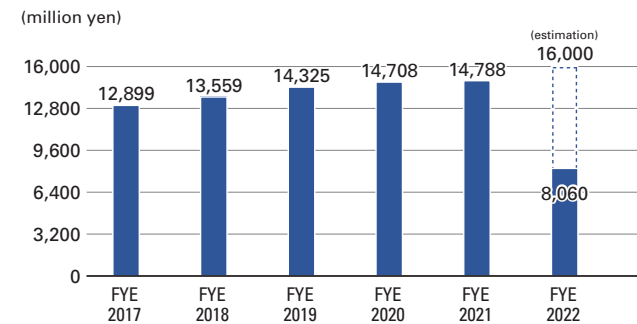
April 2021
Partnership agreement concluded with ServiceNow Japan.
A certified partnership agreement was concluded with ServiceNow Japan for transition into service operations founded on a unified platform, to achieve greater process efficiency and remote operation and to promote new workstyles in the age of the new normal.

Certification in management systems standards

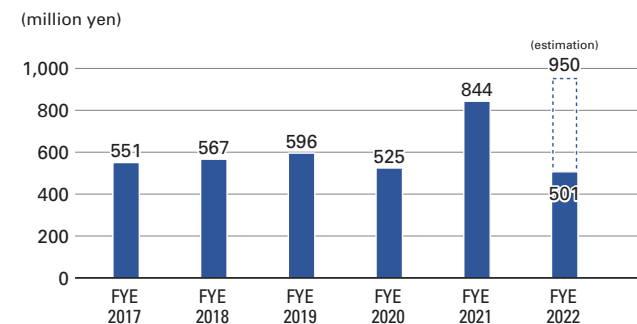
- Quality**
March 2001 ISO9001 certification acquired.
- Information security**
December 2003 Certification was acquired under the information systems management system (ISMS) conformity assessment program and BS7799 standard.
February 2006 ISO/IEC27001 certification acquired.
- Environment**
July 2005 ISO14001 certification acquired.

Financial Highlights

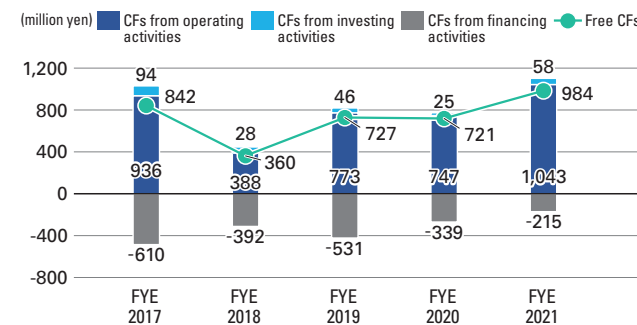
Net Sales



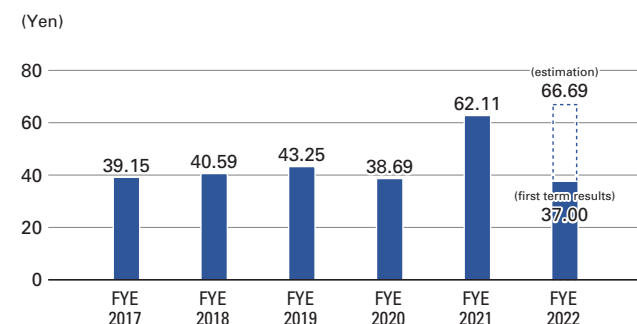
Current Net Income Belonging to Parent Company Stockholders



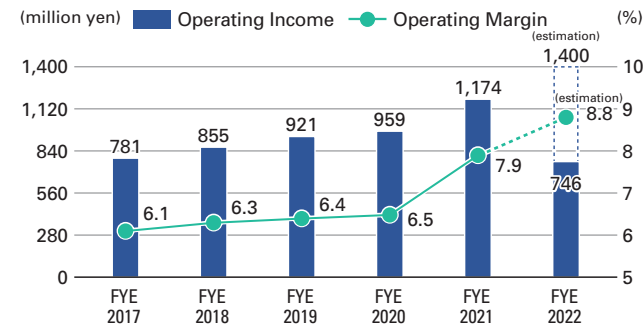
Cash Flows



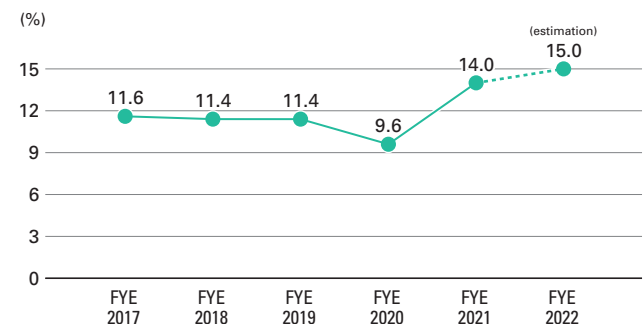
Earnings per Share (yen)



Operating Income/Operating Margin

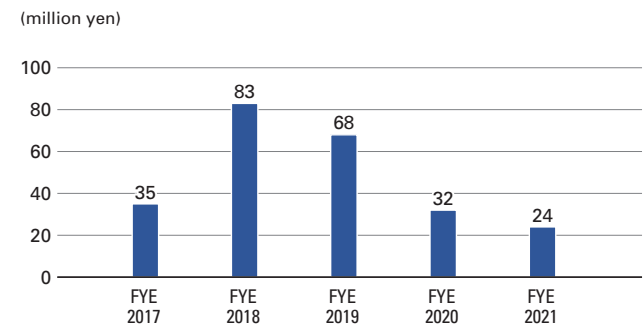


Return on Equity

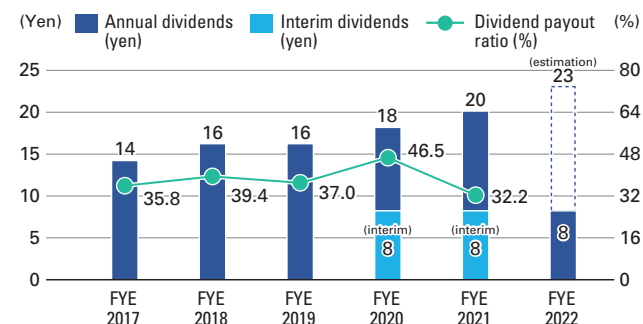


* Interim at September 2021 (Profit×2 at September 2021)/((Equity at the beginning of April 2021+Equity at September 2021)/2)×100

Research and Development Expenses



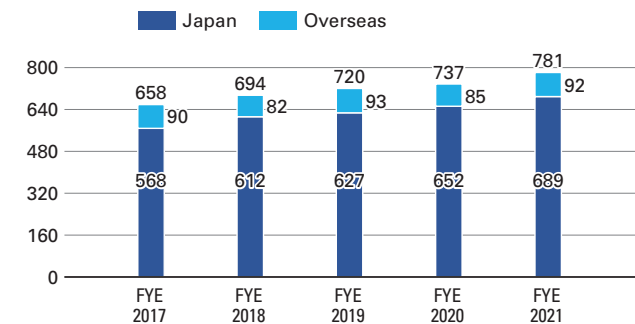
Dividends per Share/Dividend Payout Ratio



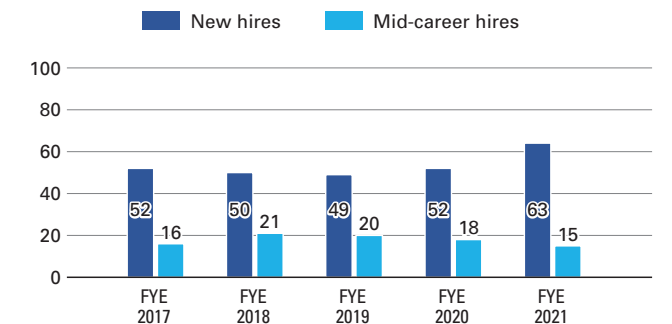
* Dividends implemented at the end of term during FYE2017 to FYE2019.

Non-Financial Highlights

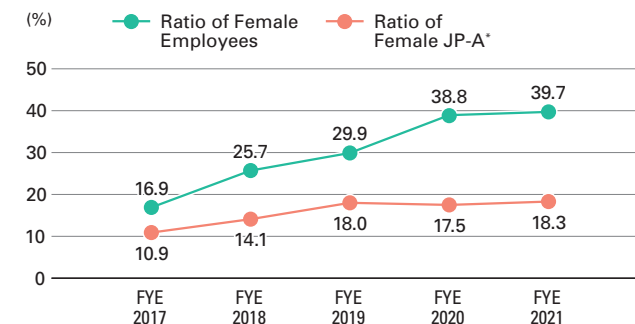
Number of Employees (Group Total/Japan/overseas)



Employment (new hires and mid-career hires)

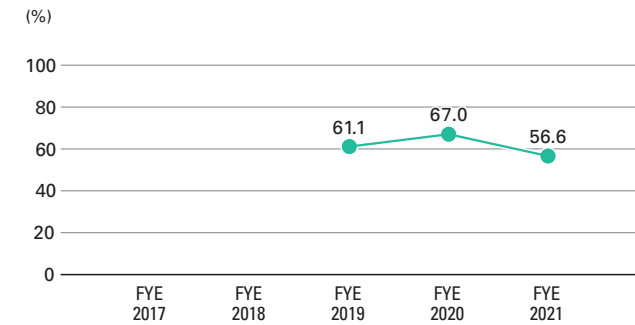


Ratio of Female JP-A*/Ratio of Female Employees (non-consolidated)



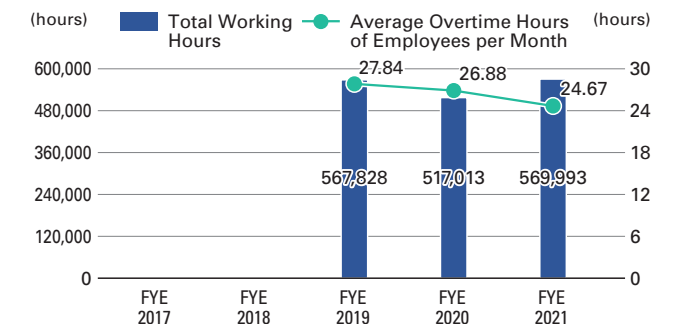
* Ratio of female employees in section manager posts

Employees Taking Annual Paid Leave (non-consolidated)



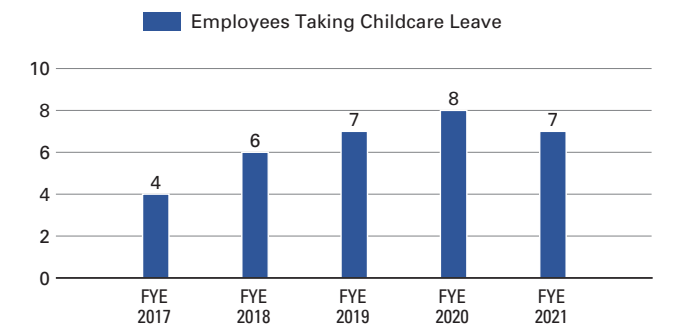
* No calculation results in FYE2017 and FYE2018

Total Working Hours/Average Overtime Hours of Employees per Month (non-consolidated)



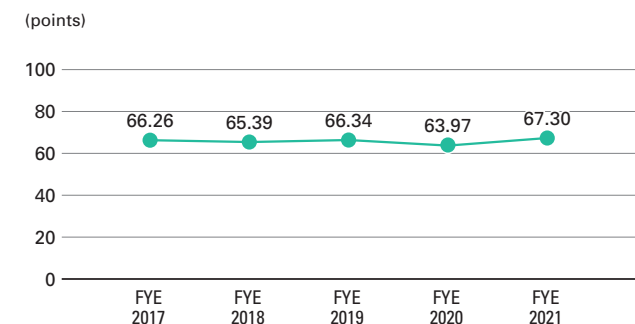
* No calculation results in FYE2017 and FYE2018

Employees Taking Childcare and Nursing Care Leave (non-consolidated)



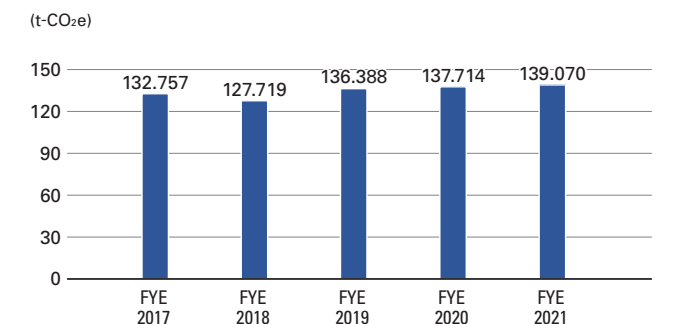
* No Employees Taking Nursing Care Leave during FYE2017 to FYE2021.

Customer Satisfaction



* Each evaluation point (quality, improvements of issues, comparison among competitors, etc.) is calculated to a 100-point maximum.

GHG Emissions (Scope 1 and 2) in Japan



* Only for Head Office, Osaka Wiz Tower (non-consolidated)



中西 雅洋

Masahiro Nakanishi

Representative Director
President & COO
CDO (Chief Digital Officer)

Looking forward, we are endeavoring to reform our business through implementation of our New Medium-to Long-Term Management Vision, V2026

CUBE SYSTEM Strengths

CUBE SYSTEM INC. was established in 1972, and will celebrate its 50th anniversary soon. The 70s, when the company started, was the dawn of the Information Technology (IT) era. Computers were available only to limited people and in certain fields, and its main use was merely to automate simple calculations. IT has advanced incredibly within a short period of time—having gone through changes brought about by technological development—such as conversion to open architecture and online operations—powering multiple technologies and usages today.

As the technological phases quickly changed, our company also grew along with them. Although there are many factors that support such growth, the most important factor that I recognize is our human capital.

Our company has constantly undertaken a range of active investments in human resources over the years. Our management philosophy starts with the words: “Companies thrive through the support of various

people.” As demonstrated by this sentence, I believe that human capital is the driver behind our company’s growth.

Under the banner of “Seek innovativeness and contribute to society with multi-faceted ideas driven dually by technology and creativity,” all of our employees have been working hard to establish our corporate brand.

Also, our Management Basic Policy is “Customer first, Clear prioritization, and Company-wide sales-minded approach.” Particularly with the Company-wide sales-minded approach, our system engineers themselves work on their projects maintaining direct contact with clients to fully grasp their viewpoint and potential requirements. Our engineers are encouraged to improve their human capabilities, such as communication and observation skills, to foster and carefully maintain a trusting relationship with their customers. This had led to our company’s sustainable growth.

What I value in business management is Communication & Mutual Respect. Our businesses are supported by a number of stakeholders, including our customers.

For our sustainable growth, it is important to maintain an attitude that values each other’s standpoints and ideas by holding thorough dialogues with stakeholders.

It is also important to maintain a wide perspective. We are in a time when the business environment and social values are changing dramatically. It is important

for system engineers to keep their view wide to embrace the perspective of system users and end consumers, as well as their engineering viewpoint. Such an attitude is important not only in business but also in day-to-day tasks. We hope that our company is a group of people who can communicate actively, understand each work with a wide viewpoint, and think and act on their own initiative.

Promoting Sustainable Management

Our company has been continuously improving our corporate value by improving our financial and non-financial value. At the same time, we have been contributing to building a sustainable society. To define this approach, we established the Sustainability Basic Policy in November 2021. This Basic Policy was created to nurture understanding of each employee’s duties and roles in social development, and to clarify our approach toward enhancing corporate value and solving social issues through our business and social contributions.

Based on this Basic Policy, our company formulated an exclusive value creation model as a framework to practice sustainable management.

This value creation model is a framework to improve our corporate value through contributing to building a sustainable society by driving forward our business toward our business vision, utilizing our solid financial

capital and diverse non-financial capital, both of which we have continued to build up to the present day.

We aim to achieve VISION 2026 (V2026) based on this model through capital increase and creating financial and non-financial value, while providing safe and secure systems to our customers that in turn contribute to their businesses. We are also actively working to achieve SDGs and reduce CO₂ emissions to help minimize climate change.

Our company is also determined to address ESG issues from a medium- to long-term viewpoint. We plan to hold dialogues with stakeholders in the course of continuously improving the soundness and transparency of our business management. We continue running our value creation cycle model reflecting the opinions from stakeholders obtained through such dialogues to realize sustainable growth.



Reviewing VISION 2020

Our previous Medium- to Long-Term Management Vision, VISION 2020, started in FY2012 and reached its end in FY2020. V2020 was carried out in three steps of three years, over the nine years since FY2012.

The 1st Step focused on and reinforced our System Enhancement Business, a continuous enhancement service that follows the initial development and installation.

The 2nd Step focused on the reform of existing business models and creation of new businesses, including expanding the SI Business and finding new customers.

In the 3rd Step, we pioneered new growth areas to

create new services, further reformed business models, and expanded our overseas business.

Reviewing V2020, we realized a certain level of achievement in reinforcing existing businesses and launching SI Businesses. However, some issues were left as business model reform projects, which we started in the 3rd step, or obtaining human resources for such reform. We are still halfway to achieving those targets.

Although FY2020 saw increased sales and profits, the V2020 target we initially set was not achieved. We plan to address these issues in our new Medium- to Long-Term Management Vision, V2026, starting from FY2021, for the further business model reform.

Aiming to Reform Our Business Models through V2026

The new Medium- to Long-Term Management Vision, V2026, which started in FY2021, is centered around three major businesses.

First is the System Enhancement Business. This is our long-standing business model where our main strengths lie. Founded on our firm experience, we plan to accelerate this business to increase customers' productivity and profitability. Next is the SI Business (Lift & Shift), through which we offer various system integration services to support customers' business process reforms. Lift refers to cloud conversion of customers' existing systems. Shift refers to a system

configuration that follows the cloud conversion, and includes conversion of application software to micro services and configuration of new operational models. We plan to further expand this business utilizing our expertise. Finally, the Digital Business offers support for corporate customers' business reforms and digital technology utilization. We also plan to offer our exclusive system solutions of our own in this area.

V2026 aims to expand the SI Business (Lift & Shift) and the Digital Business, on the revenue base of the System Enhancement Business.

The target ratio in total net sales of System Enhancement Business : SI Business (Lift & Shift) : Digital Business is 6:3:1.

The First Medium-Term Management Plan spans FY2021 to FY2023. The focus of this period is building infrastructure for our businesses management. Targets include new business model reforms, establishment and reinforcement of corporate governance and internal control. Following this, the business and management infrastructures established within these first three years will be utilized to produce business results as the accelerator for further growth.

As a measure to create these business and management infrastructures, we established a dedicated company-wide organization. The DX Promotion Office, established in 2020, is an organization to encourage employees to acquire and accumulate new knowledge and knowhow about the Digital Business. In 2021, we also set up the Process Innovation Office and Business Innovation Office. The Process Innovation Office will

build a new system enhancement model utilizing our software development expertise with the aim of increasing profitability. This office will be responsible for building and operating the models and widening the scope of model application in order to increase the profitability of the System Enhancement Business. The Business Innovation Office promotes our technologies

People Are the Driver of Growth

In addition to its financial targets, V2026 also sets out non-financial targets. Non-financial targets comprise diversity promotion, workstyle reform, communication encouragement, and human resources development. These are all related to human resources.

Diversity has been a focus of attention in recent years. The aim of promoting diversity in the workplace is to create an environment where each employee, with their different skills and values, can exert their abilities to the full. It also promotes their own ambitions and their business mentality so that they can think and act on their own initiative. This approach is indispensable to realizing our management policy, "Contribute to society with multi-faceted ideas driven dually by technology and creativity." We are actively promoting diversity as a part of our business management strategy. Diversity has a wide coverage, including gender, race and nationality, disability, values, career and experience, and working style. Among these, we particularly focus on empowerment of women, supporting child care and nursing care, and employment of persons with disabilities and creating an environment to empower them.

We are also working on Wellbeing Management through reforming employees' working styles. Keeping employees' good mental and physical health through wellbeing management enables employees to perform at their best to offer a grade higher added value to our customers.

The spirit of "Communication & Mutual Respect," as mentioned earlier, makes Wellbeing Management feasible.

We have been improving system engineers' skills, promoting employee health, and reforming working styles continuously, as they are important management issues. We commit to maintain our own efforts in human resource development to reinforce our competence and differentiate our services from competitors to increase our non-financial value.

and services as a system solution business that offers effective technological services. This office is responsible for liaison among the DX Promotion Office, Technological Strategy Office, and Process Innovation Office to expand the SI Business (Lift & Shift) by driving forward solution buildup and operations.

Definition of Well-Being in CUBE SYSTEM

- A good mental and physical health draws the best performance from each employee, providing them with a sense of growth and happiness.
- Putting it important to realize dreams through team work with sympathetic people makes a fulfilling life.
- Only an organization that enables people to work with self-driven motivation can offer a high added value to customers.

We live in a time when companies must make individual employees happy through the work itself, not only rewarding them with money, goods, and positions.



Risks and Opportunities Associated with Social Change

The COVID-19 pandemic has brought massive lifestyle changes to the world. We are still living under the influence of the COVID-19. Consumers' dramatic behavioral changes triggered by COVID-19 also affected corporate behavior. Some industries and companies have managed to utilize this change as a business opportunity and actively expanded their EC sites and telecommunication services in order to adapt to consumers' new purchasing modes. The small-lot distribution industry is also actively investing in the area of last mile logistics. Recently, we can observe signs of demand recovery toward building new business infrastructure, even in stagnant industries.

Such changes have also occurred in our company. We rapidly adapted to teleworking, utilizing online communication tools, and this created more time to spend effectively.

Digital technology is essential for grasping changes as opportunities. We will address a variety of challenges, including our business model reforms, taking the COVID-19 pandemic as a new opportunity. We continue to improve our management system for speedy decision-making by maintaining a flexible attitude to unforeseen situations.

Message to Stakeholders

The CUBE SYSTEM Group's mission statement in V2026 includes the following: "Employees think and act on their own initiative, pursuing their own ambitions and applying their own business mentality," and "Achieve business growth through planning and contract-type business." All of our employees will contribute to society through our business activities.

The role of IT will expand even further to develop

our future society and our lives. Utilizing our expertise in IT, we aim to become a company with an essential presence in building an affluent and sustainable society.

With encompassing efforts, we, as one team, endeavor to increase our corporate value through responding to expectations across our wide-ranging stakeholders.



Sustainability Management

CUBE SYSTEM Group believes it is important to contribute to society by connecting the resolution of social issues to its business. Our Sustainability Management Basic Policy was established in November 2021 to promote sustainability management that leads to an improved corporate value and resolution of social issues.

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 for 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 its clients' business 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

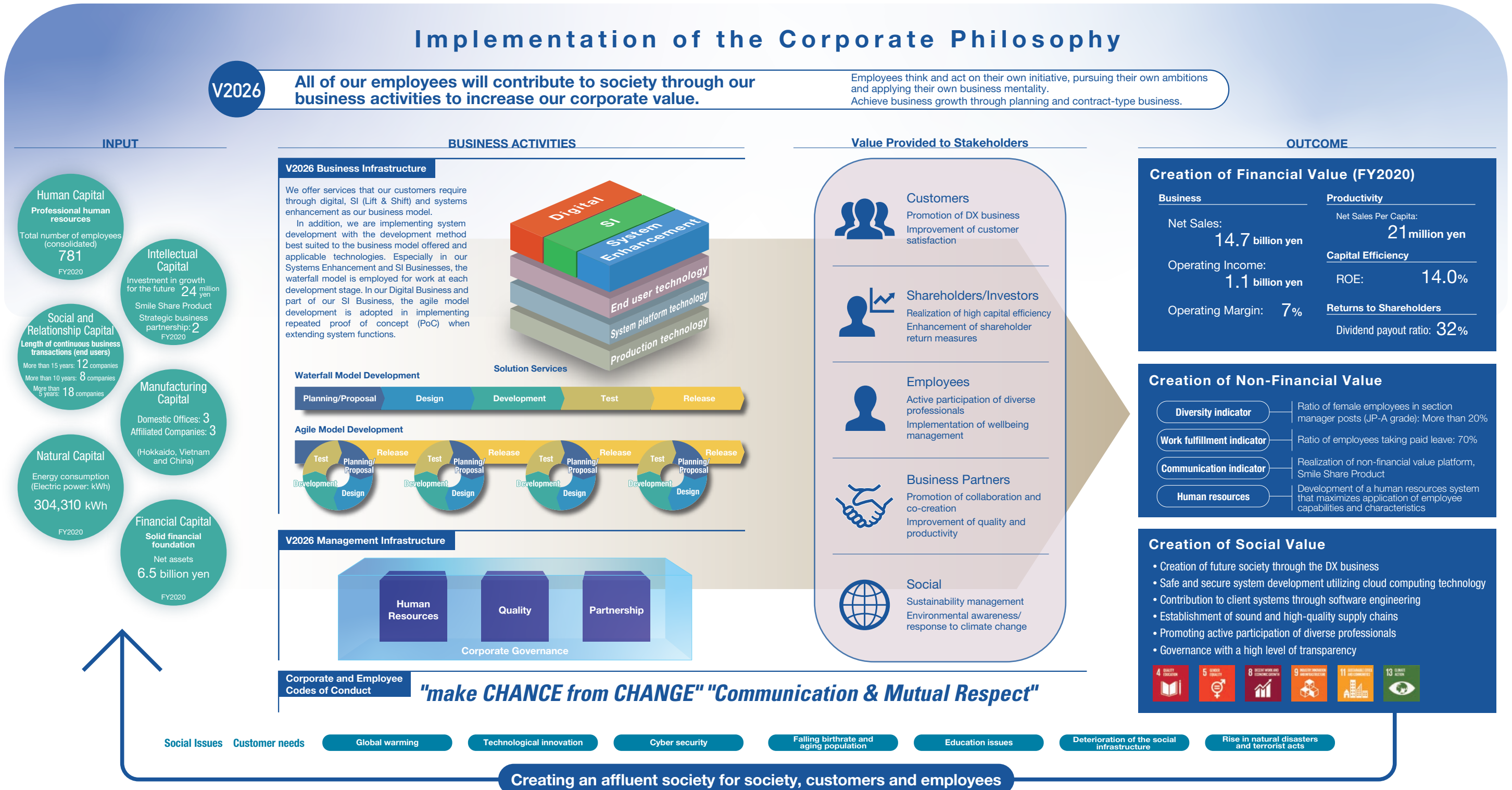
- Practice environmentally friendly management through business activities to contribute to reducing the environmental impact and developing a sustainable society.

November 2021



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 resolve social issues and contribute to SDGs.



Human Capital

Importance	Our Strength
Value Creation by Diverse and Self-Reliant Human Resources	<ul style="list-style-type: none">Diverse professional human resources

Our Approach Toward Human Resources

CUBE SYSTEM seeks “human resources with high expected value to achieve results and who grow together with our organization.” The company cultivates such human resources into self-reliant business persons.

The human resources we seek are those who can create business in a self-driven manner while respecting each other, and who can provide better social contributions through their growth as corporate members.

Our fundamental human resource approach is “We aim to reward employees based on their achievements and expected value.”

The results we refer to concern the degree to which they are able to exert their skills in their daily business activities against their set action targets. Our results-based approach is designed to increase such effort. Based on past results, employees are expected the future performance and are thereby given a chance to grow. Such expectations drive the motivation of employees toward further growth and results, and in turn improve their rewards.

We believe that an organization as one team would enjoy enhanced results when such self-reliant business persons work together with mutual respect, sharing their excitement and joy of work. A corporate culture that embraces such joy in teamwork will create and improve both its corporate and social value.

Based on this idea, we continuously utilize the Plan-Do-Check-Act (PDCA) cycle to improve our human capital aiming to cultivate and empower diverse professional human resources.

Human Resource System

Our human resource system comprises the Skill and Qualification system that determines an employee's rewards based on their business capabilities, and the Mission Grade system that determines employees' job grades based on their performance results and expected value.

Each employee creates their career plan based on their vision of themselves in three years time, and sets targets that align with our organizational targets. Based on this, they create an action plan. The achievements realized toward their set targets are regularly reviewed and assessed. Promotion opportunity is triggered and considered by their self-recommendation, in principle.

Human Resource Career Plan

We have a job grading system, in which a corporate mission is allocated to each individual and the individual's achievements are measured based on their mission roles. This is known as the mission grading system and such grading is composed of two types of job roles: managerial roles and professional roles.

Those in managerial roles are given organizational missions to take responsibility for developing human resources and carrying out the business plan while managing the organization and building trust with customers.

The professionals take responsibility for their given missions, such as gaining customer satisfaction or conducting high risk and complex projects, utilizing their intellectual value. Professionals up to and including the JP-A grade are trainees who will become future managers or professionals in the MP-B grade or higher.

Human Resource Framework

Grades		Roles	
Classifications	Standard	Professionals	Managers
		Grades	Grades
Executive	Equivalent to ITSS L4 (Advanced level of knowledge and business contribution)	SP	GD
Senior	Equivalent to ITSS L3 (Applied level of knowledge and business contribution)	MP-A	GM
		MP-B	MG
Middle	Equivalent to ITSS L2 (Basic level of knowledge and business contribution)	JP-A	
		JP-B	
Junior	Below ITSS L2	General employees	

Human Resources Development

Human resources development whereby all employees enhance their expertise

Human Resources Development Guidelines

We have created Human Resources Development Guidelines based on our Management Philosophy, Basic Policy, and the ideal human resources we seek, and also taking account of the business plan and business trends. Led by our Center for Future Human Resources Development, we enhance employees' human, technical, and management skills from our unique six viewpoints similar to a Balanced Scorecard criteria. The guidelines also specify organizational ability skills for managers to standardize the training programs and promote them.

Career fields

We set various career fields to enable each employee to focus upon their work with a purposeful mind and encourage their growth with a clear vision of their future. There are 10 fields, each of which is associated with various areas of IT Activities, Professional Results, and Business Contributions. Employees set their targets according to their career field, and work toward them to increase their human resource value.

Support for qualifications

One of our viewpoints, the Human Resources Development/Inspiration Ability, required within the Technical Skills area, is indispensable to increasing corporate value.

To provide the optimum training and edification programs to each employee, we offer an incentive program for IT and customer communication qualifications, in addition to paying for certification examination fees.

Number of Qualified Employees (as of April 2021)

IT engineers	Basic IT engineers	328
	Applied IT engineers	120
	Advanced IT engineers	60
	Oracle DB	159
Advanced technologies	Oracle Cloud	31
	AWS	60
	LinuC	68
	JDLA G-certificate, E-certificate	G-certificate: 16 E-certificate: 3
Customer communications	Retail Marketing Certification (Grades 2 and 3)	Total 101 persons
	Sales Representative Qualification (Class 2)	4

Cultivating DX human resources

We provide the Top Runner Program to train people in order to accelerate our digital business, which is a part of our Medium- to Long-Term Management Vision, VISION 2026, and the growth strategy of the First Medium-Term Business Plan. We plan to increase the number and diversity of DX-oriented human resources by encouraging employees to obtain qualifications in the DX areas—including AI and by providing In-house education.

Definition of Career Fields

Professional IT-related human resources	Sales specialist	SS	Collect customer information, manage customer relationships, offer solutions to solve customer issues, plan and offer packaged solutions.
	System consultant	SC	Responsible for system consultation to solve various issues, including customers' business or management strategies.
	Project management specialist	PS	An assistant project manager. Oversee projects to manage their progress, handle issues & LIB management, etc.
	Project manager	PM	Manage (new) development projects, liaising between customers and team members.
	Application specialist	AS	Develop and maintain systems utilizing their advanced business and system-related expertise in a specific business field.
	Application engineer	AE	Develop and maintain systems by understanding customers' business issues and designing optimum solutions to such issues.
	Technical specialist	TS	Verify non-functional requirements related to methods, implementation, and performance assessment etc. utilizing their advanced expertise, including knowledge of latest technologies.
	Technical engineer	TE	Verify non-functional requirements related to methods, implementation, reliability, and performance assessment etc. utilizing their specialized techniques.
	Service manager	SM	Comprehensively manage operational services, such as system operations, monitoring, and help desks.
	Service engineer	SE	Assist in operational services, such as system operations, monitoring, and help desks.
Corporate administration		CS	Administration members, including those in the departments of business planning, finance & accounting, general affairs & HR, HR development, quality assurance, and HQ.
Organizational manager		MG	Manage organizational targets, business progress, quality assurance, human resources development, employee mental health, etc.

Intellectual Capital

Importance	Our Strength
Promoting research and development that can resolve social issues	<ul style="list-style-type: none">Research and development strategyDemonstration experiment of DX technologiesBusiness partnerships with solution vendors

Approach to Research and Development

Our research and development (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 business infrastructure 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, reform of production methods, etc., aiming at monetization or utilization in a profitable business after completing R&D.

Smile sharing product

Utilizing blockchain technologies, we have developed a non-financial value platform that supports non-contact communications and employee engagement in the era of teleworking. We are currently testing the product through internal usage to identify problems and improve the product.

▶ Page 22: Special Topics

Utilization of Technologies

Demonstration experiment of internal cryptocurrency usage

In August 2021, we started the demonstration experiment for e-gift exchange service, combining the digital gift service, “giftee for Business,” provided by giftee Inc. and our internal cryptocurrency, Cubecoin.* This service allows employees to receive corporate welfare wherever they are, especially in these times of teleworking when working styles are varying. We plan to expand the scope of the service based on the results of this experiment.

* Our own internal cryptocurrency product, through which employees can send a small gift to each other to show their appreciation. Cubecoin was developed using Ethereum, a blockchain platform.

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.*

* Smile Regi: An easy-to-use payment service that identifies the user using facial (smile) recognition and confirms the payment instruction by the user’s specific gesture (giving the two-finger peace sign).

Promotion of Research and Development

Partnerships with solution vendors

Business and Capital Alliance with Tripleize Co., Ltd.

In July 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 jointly conducting R&D toward establishing new DX-based businesses and DX-related human resources development to accelerate our business expansion.

Business Partnership with Kinaxis Japan K.K.

We concluded a business partnership agreement with Kinaxis Japan K.K. in November 2020. This agreement enables us to design systems that can fully utilize a variety of functions in Kinaxis’ supply chain management platform, RapidResponse®. With our expertise in data management, we can create efficient business processes that addresses the various issues that frontline workers experience and support system development in an optimum and prompt manner.

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 knowhow and skills so that we can reform existing business models effectively.

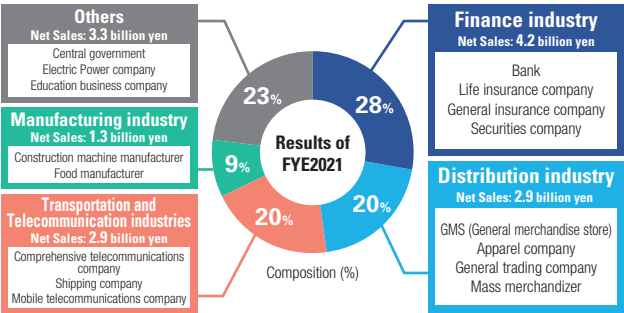
Social and Relationship Capital

Importance	Our Strength
Building a foundation through partnerships with stakeholders	<ul style="list-style-type: none">Solid customer base and collaboration with business partnersClose communications with stakeholders

Solid Client Base

We support customers’ businesses through our long-term partnerships. We have been providing our services to the industry’s top-class corporations through partnerships with major system integrators and IT subsidiaries. Through such long-term business partnerships, we have built up our business performance, experience, and knowhow. These are our important assets, and we continue to contribute to client business development through our software engineering.

A Client Base (End User) That Spans Industry Boundaries



Length of Continuous Business Transactions (end users)

More than 15 years: 12 companies	Major retailer, major bank, major GMS (General merchandise store), central government, major DIY store, securities company, etc.
More than 10 years: 8 companies	Major credit card company, manufacturers, major telecommunications company, education business company, etc.
More than 5 years: 18 companies	Major gas supplier, major life insurance company, major mobile telecommunications company, etc.

Nomura Research Institute, Ltd.

Since the conclusion of a basic agreement in March 1988, we have continued to provide system solution services to Nomura Research Institute. After building up our long-term trust, we were specified as an e-e partner in 2008.

Fujitsu Limited

Since the conclusion of a service agreement with Fujitsu Limited in June 1984, we have been providing system solution services for their projects in the finance industry, telecommunication industry, and in central government.

Collaborations with Business Partners

Trustworthy relationships with our business partners are indispensable for providing system solution services to our customers that lead to sustainable growth. We share medium- to long-term challenges with our major business partners to maintain open and trusted cooperation. Particularly for those business partners with whom we can share our medium- to long-term vision, we enhance our collaboration beyond simply joint business projects to mutually increase corporate value.

Concluding capital and business partnership agreement

Systemcreate Co., Ltd. (May 2005)

Agreement summary The agreement is to jointly work on business channel expansion, quality and technological enhancement, information security management, and improving and streamlining business management methods related to human resources development programs.

Tripleize Co., Ltd. (August 2018)

Agreement summary The agreement is to develop new businesses and expand business fields, as well as developing human resources with AI, IoT, and blockchain technologies.

Communications with Stakeholders

We appropriately disclose information related to our business activities to stakeholders through different media, including our official website. We constantly offer various communication opportunities for our stakeholders to give us their comments and evaluations, which we then reflect in our business activities.

Communication Opportunities with Our Stakeholders

Stakeholders	Communication opportunities
Customers	<ul style="list-style-type: none">Satisfaction surveyService-related questionnaire
Shareholders & investors	<ul style="list-style-type: none">Shareholders meetingsLetters to shareholdersSeminars for individual investors
Employees	<ul style="list-style-type: none">Various training programsDialogues with top managementCommunication events
Business partners	<ul style="list-style-type: none">Information sharing meetingsBusiness plan briefingsPartner hotline
Society	<ul style="list-style-type: none">Free lecture donationsParticipation in community activities

Financial Capital

Importance	Our Strength
Maintaining a management infrastructure that supports sustainable growth	● Sound financial operations

Business Management Indicators

We established a Medium- to Long-Term Management Vision, VISION 2026 (V2026), and the First Medium-Term Business Plan, which spans FYE2022 to FYE2024 and focuses on the following three indicators.

The table below shows the indicators and their results as of FYE2021.

Business Indices and Results

	Indicators (FYE2022 to FYE2024)	Results as of FYE2021
ROE	13% or greater	14.0%
Consolidated operating margin	8.0%	7.9%
Consolidated net sales per capita *	23,000,000 yen	21,464,000 yen

* Excluding overseas subsidiary employees

Financial Status as of FYE2021 (Consolidated)

Assets

Our current assets totaled 7,253 million yen (a 1,012 million yen increase year-on-year) due to an 890 million yen increase in cash and savings, 225 million yen increase in notes/accounts receivable trade, 100 million yen decrease in securities, etc.

Non-current assets totaled 2,190 million yen (a 384 million yen increase year-on-year) mainly due to a 275 million yen increase in investment securities and a 162 million yen increase in net defined benefit liability.

As a result, total assets reached 9,444 million yen, an increase of 1,396 million yen compared to the previous fiscal year.

Liabilities

Current liabilities totaled 2,357 million yen (a 483 million yen increase year-on-year) due to a 220 million yen increase in income taxes payable, 87 million yen increase in accounts payable-trade, 77 million yen increase in accounts payable, 40 million yen increase in loans payable, etc. Non-current liabilities were 571 million yen (a 30 million yen increase year-on-year) due to a 42 million yen increase in share-based allowances reserve and a 15 million yen decrease in net defined

benefit liability, etc. As a result, total liabilities were 2,928 million yen, an increase of 514 million yen compared to the previous fiscal year.

Net Assets

Net assets totaled 6,515 million yen (an 882 million yen increase year-on-year) mainly due to a 592 million yen increase in retained earnings, 144 million yen increase in valuation difference on available-for-sale securities, and 128 million yen increase in remeasurements of defined benefit plans.

Investment Evaluation Committee

To grow a business, it is necessary to pioneer new markets and business fields, acquire new clients, and develop exclusive businesses and solutions. At the same time, some risk is inevitable when starting new businesses, entering new fields, and developing new products. Therefore, decision-making and control processes, to which business judgement rules are applied, are essential to protecting business and corporate value, while utilizing business assets appropriately.

The Investment Evaluation Committee, chaired by an appointed officer, is stipulated in the Company to make investments based on business judgement rules. The Committee assesses the appropriateness of investments, R&D, and investment for business reforms.

Dividend Policy

We believe that it is a listed company's responsibility to return profits to shareholders, and we regard this as one of the most important factors in business management. We endeavor to improve our performance and increase shareholders' asset value through stable dividends and increasing market capitalization value. While securing the internal reserves necessary to strengthen our management structure, we will maintain steady dividends, with a dividend payout ratio of about 35% on a consolidated basis as a return to shareholders. Based on this policy, we make dividends of surplus twice a year: an interim dividend and a period-end dividend. The Articles of Incorporation also specify that the Board of Directors is responsible for making decisions on dividends from surplus etc. according to the resolution of the shareholders' meeting on June 28, 2017.

Natural Capital

Importance	Our Strength
Minimizing environmental risks	● Contributing to resolving environmental risk issues faced by customers through our business

Environmental Management

Our Environmental Policy states, "Practicing environmentally friendly management through business and contributing to reducing our environmental impact and building a sustainable society" to continuously improve the environmental management system. We obtained ISO 14001 in 2005 and our business activities comply with this standard.

We continue paying careful attention to the environment in our business activities by setting concrete targets and improving environmental performance through regular reviews.

▶ Page 44: Environmental Policy

Efforts for TCFD

Governance

The CUBE SYSTEM Group regards climate change as an important management issue. Our 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.

Strategy

We conducted a scenario analysis on our business to clarify risks and opportunities derived from climate change and establish a strategy to minimize such risks and maximize the opportunities. We created a 2°C and a 4°C scenario. We estimated the financial impact on the Group's business and accounting from climate change according to each scenario (a sales-based calculation was used for the estimates per net sales or operating income), and those with an impact of 100 million yen or greater were categorized as "large impact," those between 10 million yen to less than 100 million yen were "medium impact," and those with less than 10 million yen were "low impact." We aim to establish sustainable management by applying our findings related to risks and opportunities obtained through this scenario analysis to our business strategy.

Risks and Opportunities Identified by Scenario Analysis

Legend
[Risks & opportunities] Opportunity: ○ Risk: ×
[Business and financial impact] Large impact: ↑, Medium impact: ↗, Small impact: →

Types of risks and opportunities		Categories	Expected changes (examples)	Risks & opportunities*	Business and financial impact	
					2°C scenario	4°C scenario
Transitional risks and opportunities	Policy	• Decarbonization	Introduction of carbon tax	×	→	
	Technology		Expansion of demand for energy-related services (e.g. blockchain carbon accounting, and related management system)	○	↑	
			Shift to more power-efficient cloud systems	○	↑	
	Efficient resource usage	• Reduction in labor population • Increase in remote working population	Communication issues due to increase in remote working	○	↑	
			Acceleration of accepting medium- to long-term foreign workers	○	→	
Market	• Increase in environmental awareness • Reinforcement of regulations	Consideration of investors' ESG factors	×	→		
Physical risks and opportunities	Long-term	• Climate changes • More frequent natural disasters	Extreme weather (damage from storms)	×		↗
			Rise in average temperatures	×		→

* Risks and opportunities are defined in accordance with TCFD types and categories.

Manufacturing Capital

Importance

System and environment to provide a high-quality service to customers

Our Strength

- Knowhow accumulated over many years
- Attention to quality and management system

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 knowhow. Integrating such knowhow, we created our own standard framework for development, F@CE*, (patent 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

System Development Committee

We are holding the Systems Development Committee as a means of powerfully supporting the ongoing projects in our Company. This Committee is held under the concept of “a mechanism to support frontline workers with attention to quality.” Experts are invited to the Committee according to the varying risks that a project encounters, such as highly advanced technologies, specialized business knowledge, and security, 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

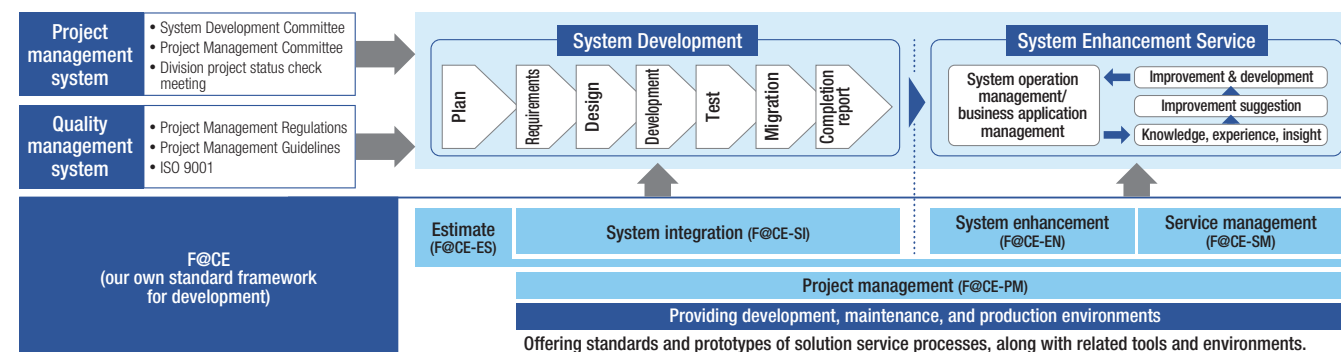
We do not regard the maintenance of systems and platforms simply as regular checks to be performed. We see it as an activity to “increase the value of the system by improving the system performance and quality to adapt to changes in customers’ business environments and the emergence and evolution of 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 our business process based on the knowhow 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.

We are also expanding our offshore and nearshore system enhancement services, utilizing our experience of offshore software development in China and Vietnam, and nearshore software development in Hokkaido.

Quality Management Initiatives



Special Topics

Smile Share Product Utilizing AI and Blockchain Technology

Sending Appreciation to Each Other Leads to Well-Being



Internal Company Communications Issues Arising from Diverse Working Styles

As many companies adopted remote working due to the COVID-19 pandemic, some issues have arisen from the changes in the manner of communications.

Remote working certainly enables diverse working styles, but at the same time it has reduced natural communications between people, having been taken over by contactless and online message exchange. It is said that people working remotely can feel more anxiety due to a lack of such real-life communications. Remote working can also make it difficult for people to keep up their motivation as they cannot know whether their keenness in working and unseen efforts are properly recognized or assessed.

Bringing a Smile to Employees Through Digital Technology

The aim of our business is to contribute to addressing social issues using IT. To address the issues related to non-contact communications and insufficient engagement between employees in this remote working era brought about by social changes, we have developed our own solution called Smile Share Product.

thanks ConnEct

Usable as management support tool

Employees can collect a “Like!” through the internal SNS platform. This visualizes the quantity and quality of employee communications. Key members can also monitor if anyone is being left out in their groups.

Cubecoin

Internal Blockchain Platform Using Ethereum

Appreciation among employees can be expressed with internal points as a peer bonus. Such casual appreciation encourages their engagement to work and builds a better ground for communications.

Smile Regi

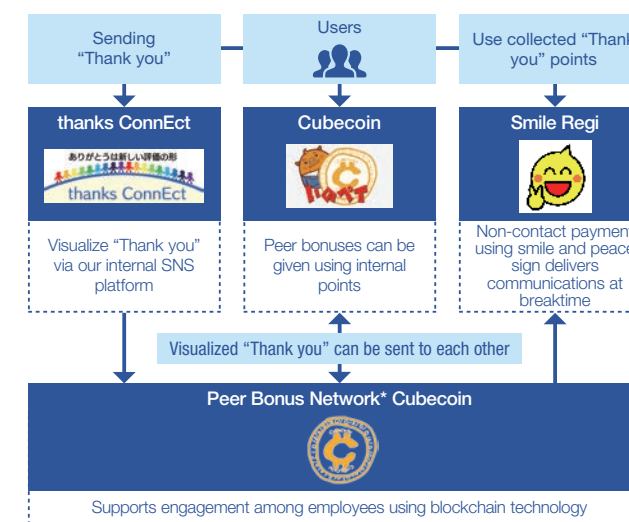
Payment in three seconds—non-contact payment service with patented facial recognition technology

Smile Regi is a payment service using Cubecoin exchanged among employees. Cubecoin can be sent to start up communications or as a self-gift. The service is combined with the facial recognition engine, AIZE, and an AI hand recognition model (patent number 6839324).

We are conducting a demonstration experiment of using Cubecoin outside of the company, combining with the e-gift exchange service for corporate users, giftee for Business,* provided by giftee Inc. Employees can exchange their Cubecoin for an e-gift as company welfare, regardless of their location.

* giftee for Business is an e-gift exchange service for corporate users. The service offers 700 types of e-gift, which can also be used as a means of product sales promotion or a reward for customers.

Smile Share Product



* 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 Well-Being

Sending some Cubecoin to express one’s appreciation is expected to produce a positive workplace atmosphere as someone’s thanks is visualized as the internal cryptocurrency, thereby fulfilling the gift recipient’s need for approval.

Our Smile Share Product 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 Product as a “non-financial value platform” that contributes to our employees’ well-being and increases our company’s exclusive value. The product is also being implemented in overseas subsidiaries. Based on the usage trials in our group companies, we will enhance service commercialization in the next fiscal year to contribute to resolving the issues faced by our customers.

Important Issues to Be Addressed by Sustainable Management

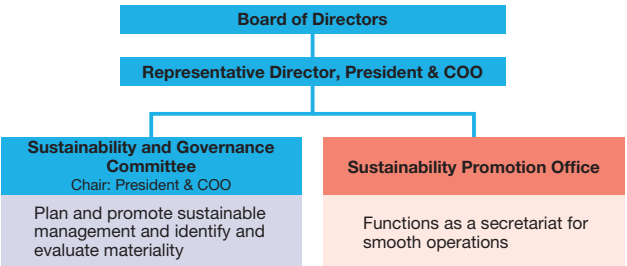
CUBE SYSTEM Group's Sustainable Management

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 utilizing our advanced software engineering skills. We pursue our sustainable management by regarding social issues that customers face as a business opportunity.

Sustainability Promotion Structure

We established the Sustainability and Governance Committee, chaired by the President & COO, in order to drive forward our sustainable management. The business management system is established with this Committee.

Sustainability Promotion Structure



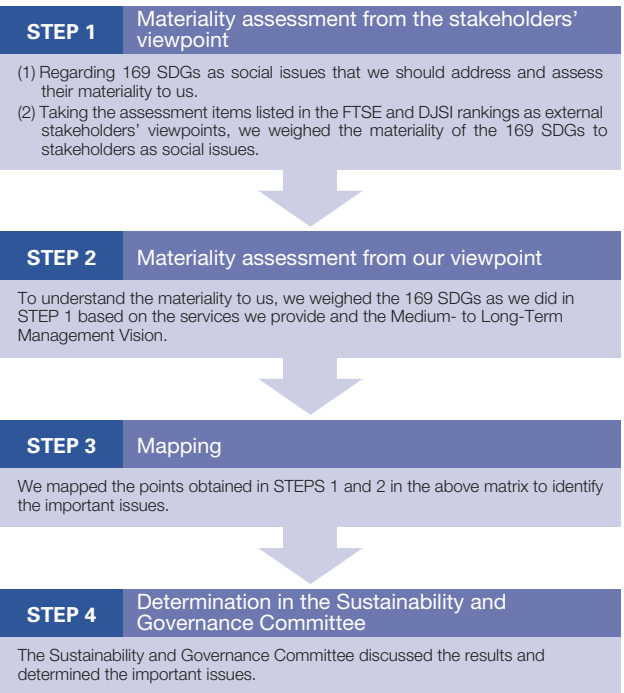
Important Issues Addressed by Sustainable Management

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

Important Issue Analysis



Important Issue Identification Process



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 (materiality) to Address

	Important issues (materiality)	Related SDGs
1 Creating a future society through DX business	Contribute to development of customers' business through innovative businesses and services working together with customers and business partners. <ul style="list-style-type: none">Promote Smile Share ProductPromote IP conversion and product conversionPromote joint consultation business and exclusive SI business	Direct contribution 8 DECENT WORK AND ECONOMIC GROWTH 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
2 Offering safe and secure systems using cloud technology	Provide platforms to run businesses with higher reliability to contribute to quality improvement of business activities. <ul style="list-style-type: none">Provide new services based on multi-cloud and micro servicesProvide system security through collaboration with cloud vendorsProvide new services through product consultation and reforming system operation models	Indirect contribution 1 NO POVERTY 2 ZERO HUNGER 3 GOOD HEALTH AND WELL-BEING 6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 10 REDUCED INEQUALITIES
3 Contributing to client system improvement through software engineering	Contribute to maintaining, improving, and streamlining client system operations through our software engineering expertise. <ul style="list-style-type: none">Pursue high productivity and high added-value	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION 14 LIFE BELOW WATER 15 LIFE ON LAND 16 PEACE, JUSTICE AND STRONG INSTITUTIONS 17 PARTNERSHIPS FOR THE GOALS
4 Solving social issues through business activities such as reinforcement and improvement of value creation platforms.	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. <ul style="list-style-type: none">Improve quality and productivity through closer collaboration with business partnersImprove quality in projects and development processesConstantly develop human resources and support for career development in various fieldsReform working styles to enable active participation by diverse human resourcesReinforce corporate governance, maintain sound compliance, reinforce information security measures, and minimize environmental impact	4 QUALITY EDUCATION 5 GENDER EQUALITY 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

Review of VISION 2020, Our Medium- to Long-Term Management Vision

Review of VISION 2020

We have implemented VISION 2020, our Medium- to Long-Term Management Vision from FYE2013 to FYE2021, in stages aimed at becoming a company recognized as the best partner for our customers and to build a corporate culture that drives growth both for our employees and the company (individuals and organization) to share their joy and affluence in the following three steps:

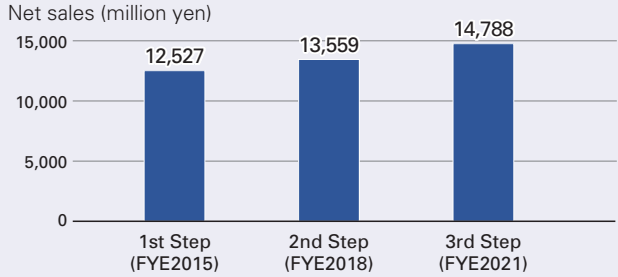
- 1st Step: Enhancing strengths
- 2nd Step: Starting up SI Business
- 3rd Step: Creation of a services menu

Although the efforts produced significant results, various issues surfaced in the area of human resources.

Management Indicators and Results

In VISION 2020, we focused our business activities on three management indicators (net sales, operating margin and ROE). However, our efforts failed to reach the targets of 18.5 billion yen in net sales and an operating margin of 9.6%. We believe that this was caused by a growth in new businesses and inadequate action in securing human resources, combined by a lack of proposals for aggressive solutions to large projects. Notwithstanding, we were able to achieve a ROE target of 13% by improving management efficiency.

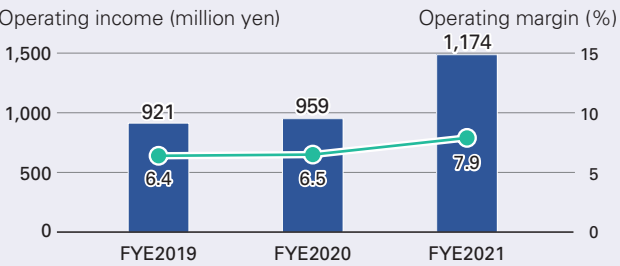
Final Year Performance in Each Step



VISION 2020 Results

Step	Theme	Results
1st Step (FYE2013 – FYE2015)	Enhancing strengths	Creation of a new organization dedicated to quality control in preparation for capturing large-scale SI projects helps improve project control capabilities effectively.
2nd Step (FYE2016 – FYE2018)	Starting up SI Business	To start up the SI Business, we organized activities aggressively to reform our business model, including exploration of business projects and new customers, and to create new business fields.
3rd Step (FYE2019 – FYE2021)	Creation of a services menu	Despite efforts to develop new growth areas and to reform our business model and grow our overseas business, human resources could not be secured as expected.

Operating Income/Operating Margin



3rd Step: Final Year (FYE2021) Performance

In the 3rd Step, we started efforts to reform our business model. However, human resources could not be secured as expected.

In FYE2021, demand grew in areas related to changes in purchasing behavior caused by the spread of COVID-19. On the other hand, demand stagnated in areas severely impacted by COVID-19. Despite aggressive IT investment in areas related to small-lot distribution, some customers tend to refrain from action and watch developments in IT. For this reason, we have shifted our production capabilities toward growth markets to compensate for the drop in sales in the existing System Enhancement Business. As a result, consolidated net sales for FYE2021 reached 14,788 million yen (year-on-year increase of 0.5%). In profits, optimization of resources and promotion of distributed business execution utilizing digital technologies generated an operating income of 1,174 million yen (year-on-year increase of 22.5%).

3rd Step Performance

	FYE2019	FYE2020	FYE2021
Net sales	14,325	14,708	14,788
Operating margin	6.4%	6.5%	7.9%
ROE	11.4%	9.6%	14.0%

New Medium- to Long-Term Management Vision VISION 2026 Communication & Mutual Respect

Toward New Business Reform

We will take the results and issues that surfaced in VISION 2020 and the changes taking place in society as new business opportunities. We are promoting our new VISION 2026 (V2026).

V2026 represents a story in which each of our employee contributes to society through our business activities to improve our corporate value. Implementing this story requires us to extend beyond the existing contract-type business to the firm establishment of a business style that combines solution planning and contract-type business.

The contract-type business that we aspire to in V2026 requires that we assess the problems and issues our customers face and that we actively propose solutions to resolve them. Planning-type business refers to providing knowhow that we acquired through our contract-type business in the form of solutions that offer new value to our customers.

This approach differs from the existing business style of proposing and providing solutions best suited to the requirements of the customer in that we act proactively to offer solutions that address various customer's issues. In executing this approach, it is important for each employee to think and act on their own initiative, rather than working only for expansion and reinforcement of contract-type business.

Business Growth Targeted in VISION 2026

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

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 business.



FY2021–FY2023

First Medium-Term Management Plan
Building infrastructure for new business reforms

Digital Business SI Business (Lift & Shift)
System Enhancement Business Management Infrastructure

FY2024 – FY2026

Second Medium-Term Management Plan
Reform to lead to achievements and accelerated growth

Financial and Non-financial KPIs

Key performance indicators (KPIs)		First Medium-Term Management Plan	Medium/long-term business direction
Financial	Capital efficiency	ROE (FY2020: 14.0%)	Maintained continuously at 13.0% or higher
	Productivity	Net sales per capita (FY2020: 21 million yen)	23 million yen 30 million yen
	Business model reform	Ratio in net sales	SI Business +2.5 billion yen (over FY2020 level) Target sales ratio of System Enhancement, SI and Digital to be 6:3:1.
	Growth potential	Net sales CAGR	Approx. 8% Approx. 9%
	Profit indicator	Operating margin (FY2020: 7.9%)	8% Approx. 10% Implement measures for continual improvement in profitability and productivity
Non-financial	Diversity promotion	Ratio of female employees in section manager posts	More than 20% Empowerment of women, employment of persons with disabilities, contribution and support of childcare and nursing care
	Workstyle reform	Percentage of employees taking annual paid leave	More than 70% Setting and promotion of indicators on work fulfillment, mental & physical health, vitality and dynamism in the workplace, etc.
	Communication encouragement	Smile Share Product	Building a "non-financial value platform" "Thank you" and "Like" indicators based on our Smile Share Product
	Human resources development	Diverse career paths and development	Establishing HR system that maximizes employee capabilities and characteristics Active participation of diverse professional human resources

Improvement of Corporate Value through Social Contributions with Business Model Reform

Under V2026, we will promote business growth through aggressive promotion of our planning-type SI Business (Lift & Shift) and Digital Business, in addition to the existing contract-based System Enhancement Business. In terms of business portfolio, we set a long-term target to achieve a target ratio of 4:4:2 in net sales. In FY2026, the final year of V2026, we will utilize profits earned in our System Enhancement Business in building the SI Business and Digital Business to achieve a new business model with a target ratio of 6:3:1 in net sales.

Digital Business

We are adopting various approaches to creating new business, including consulting services backed by our knowhow, products, solutions we have developed and creation of intellectual property.

SI Business

Services that we have been providing, starting from system planning to design, development and implementation. In the future, we plan to establish a Lift & Shift model in step with progress in DX implementation by our customers.

System Enhancement Business

The business model that we have been promoting as our strength will be revised to achieve a higher level of productivity.

Creating an Affluent Society through Business Growth

For continual business growth under our management philosophy, we will make efforts to resolve various issues in society through systems development. For this, we will utilize our financial capital, as well as non-financial capital such as intellectual capital, to deliver services with high added value. Through continual improvement in non-financial value through implementation of our value creation model, we plan to help create an affluent society for our stakeholders.

Business Model Direction and Initiatives

Tackling totally new approaches

Planning-type approach

Investment through alliance with others

Digital Business

- Execution of business reform themes through collaborations in consulting
- Development and implementation of new business model utilizing digital technologies

Growth in business share through the two approaches and strength

Large-scale
Achievement through partnership with Slers

Medium and small scale
Proposal of solutions

SI Business (Lift & Shift)

- Active promotion of proposals in cloud integration projects
- Utilization of our own agile model development
- Development/implementation of new systems operation model

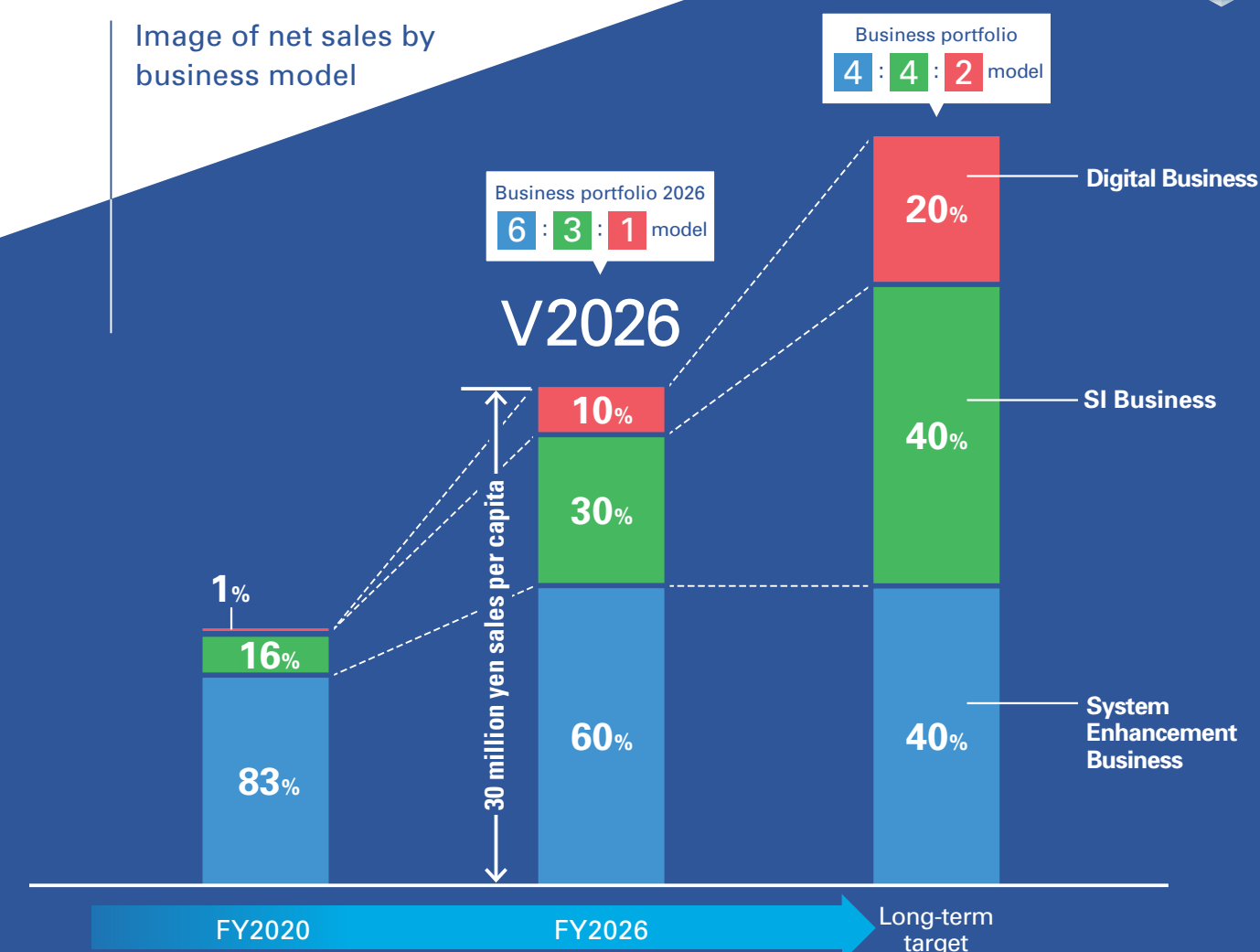
Development and implementation of new systems enhancement model

Aggressive pursuit of higher level of productivity and high added value (higher profitability)

System Enhancement Business

- Wider scope of enhancement for core business and information systems
- Aggressive proposal of process reform and derivative development
- Greater productivity through higher quality and efficient resource utilization

Image of net sales by business model



Highlights in Business Performance

We present here our business performance by business model, results for the first half of FYE2022 and our future strategy.

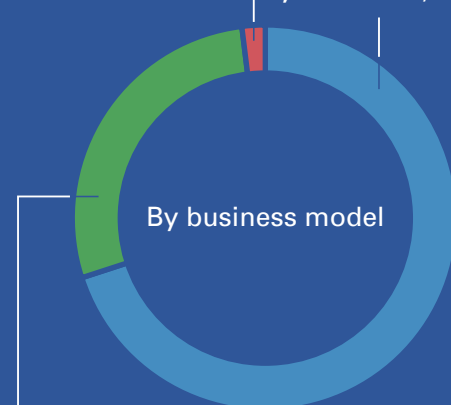
Results of first half FYE2022

(April-September 2021)

Net sales of 8 billion yen

Digital Business
139 million yen (2%)

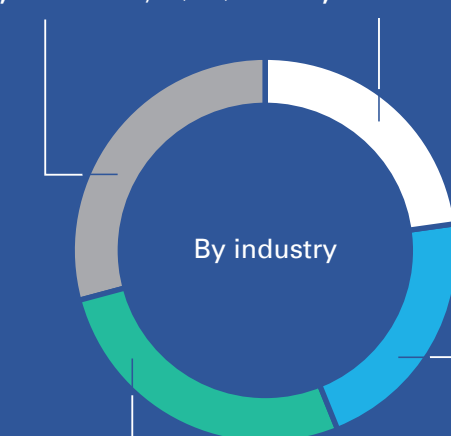
Systems Enhancement Business
5,632 million yen (70%)



SI Business (Lift & Shift)
2,289 million yen (28%)

Others
2,335 million yen (29%)

Finance
1,861 million yen (23%)



Transportation and Telecommunication
2,166 million yen (27%)

Distribution
1,696 million yen (21%)

Digital Business

Creating our own planning-type business

Target of the new Medium-Term Management Plan

Digital solutions service

- Development of our own products (including social solutions)
- Implementation of collaborative consulting business for major Slers/ planning-type SI Business for end-users

Results & issues for first half of FYE2022

- R&D (function extension/promotion of use) for the Smile Share Product
- PR at exhibitions, etc.
- Acquisition of patent rights on AI facial recognition non-contact payment service
- Demonstration experiment through coordination of functions with "giftee for Business"
- Collaborative consulting services with Slers
- Planning/solutions-based marketing utilizing block chain technology
- PoC development system and environment improvement for end-users (F@CE-DX)

Strategy

Creation and expansion of Digital Business

- End-user development of Smile Share Products
- SaaS utilizing multi-cloud platform

SI Business

Focus on Lift & Shift Collaboration with specialized companies

Target of the new Medium-Term Management Plan

Development of strength in Lift & Shift

- Systems services centering on cloud-based micro services and reform of new operation model
- Technology development with major Slers; application to other customers

Results & issues for first half of FYE2022

- Expansion in scope of micro service development projects with Slers
- Advances in strategies centering on solutions
- Conclusion of certified partnership agreement with ServiceNow Japan
- Certification as AWS 50 APN Certification Distinction
- Development/reinforcement of internal systems

Strategy

Promotion and development of collaboration model

- Adaptation of DX technologies and cloud infrastructure
- Development of customer acquisition scheme via information subsidiary
- Expansion of collaborative business in multi-cloud and micro service businesses
- Establishment of new services with product consulting and operation model reform
- Promotion of co-creation with cloud vendors

System Enhancement Business

Improve productivity and profitability through diversity in work style

Target of the new Medium-Term Management Plan

Development and execution of new systems enhancement model

- Optimization of resources through utilization of group collaboration model and validated business partnerships
- Growth in scale and improved profitability through development and management of our own development/operation platform

Results & issues for first half of FYE2022

- Greater profit capability through concentration of resources and greater development efficiency
- Utilization of development offices at Osaka Head Office and West Japan Solution Division
- Near-shore utilization at HOKKAIDO CUBE SYSTEM INC.
- Off-shore utilization at CUBE SYSTEM VIETNAM Co., Ltd.
- Development and investment in development/operation platform (advanced application to multiple projects)

Strategy

Expansion of customer market

- Acquisition of big customers to build third business base
- Implementation of collaborative consulting model

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.

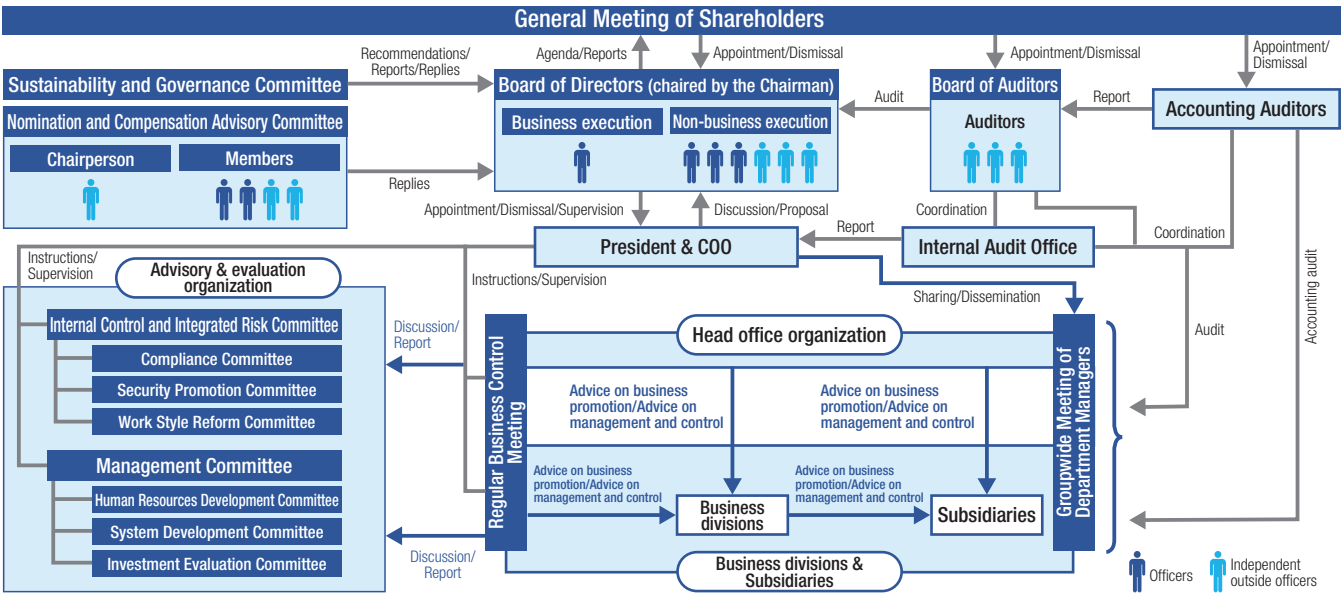
Basic Approach

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 on corporate governance is to 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 consists entirely of outside auditors who supervise the management of the company. At the same time, we have an executive officer system in which the board of directors is responsible for business decision-making and supervision and our executive officers are responsible for business execution. The auditors, who are all outside auditors, provide advice and recommendations from external and specialized perspectives at important management meetings and are promoting improvements to the business monitoring function. We have adopted the existing corporate governance structure to ensure that the outside auditors exercise a high level of independence and to build a highly transparent and equitable management system by our outside auditors.

Corporate Governance Structure (as of June 23, 2021)



Board of Directors

The Board of Directors consists of seven 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 board of auditors consists of three full-time auditors who are all outside 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 and investigating the status of our business operations and assets.

Evaluation of the functionality of the Board of Directors

Under the instructions of the Sustainability and Governance Committee, the voluntary advisory organ of the Board of Directors, the Secretariat of the Committee conducts interviews and evaluations with all directors and auditors regarding the functionality of the Board.

For FYE2021, all of the interview items were confirmed to be generally executed appropriately, assuring the functionality of the Board.

Executive compensation

Basic policy

We pursue continual growth and improvement of our corporate value as an IT business 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 to function effectively as an incentive in achieving the anticipated results.

Compensation decision-making process

Executive compensation is deliberated on by the Nomination and Compensation Advisory Committee, after consulting with the Board of Directors. In response to the report from the Committee, the Board of Directors makes decisions on compensation. The Nomination and Compensation Advisory Committee is chaired by an independent outside director, with the majority of the members being outside directors, to assure the transparency and appropriateness of the compensation decision-making process.

Compensation standards

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

Fixed Compensation

- a. Basic compensation (for directors)**
Basic compensation is paid for the role and responsibilities of each officers and is decided on the officer's business performance, the number of years in office and expected value, in balance with compensation levels at competing businesses and for other directors. 1/12 of the annual compensation is paid on a monthly basis.
- b. Equity compensation issued on resignation from office (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, for 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, 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 income 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 an incentive for achieving the targets of the medium-term management plan (both financial and 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.

List of Officers

(As of June 23, 2021)

Directors



Chairman
Osamu Sakiyama

Date of birth: July 16, 1950
July 1972 Established CUBE SYSTEM INC.
October 1975 Appointed Director of the Company
May 1989 Appointed Representative Director & President
June 2015 Appointed Representative Director, President & COO
April 2020 Appointed Chairman (present position)



Representative Director, President & COO and CDO (Chief Digital Officer)
Masahiro Nakanishi

Date of birth: November 6, 1958
April 1982 Joined Nomura Computer Systems Co., Ltd. (current Nomura Research Institute, Ltd.)
April 2002 Manager, Business Planning Department, Distribution & Social Solution Division, Nomura Computer Systems
April 2008 Manager, Operational Administration Department, Services & Industrial System Division, Nomura Computer Systems
October 2009 General Manager, Chubu Regional Headquarters, Nomura Computer Systems
April 2017 Executive Officer of the Company
April 2018 Executive Managing Officer
April 2020 President & COO and CDO (Chief Digital Officer) (present position)
June 2020 Representative Director (present position)



Director
Masaki Tochizawa

Date of birth: January 14, 1953
April 1975 Joined Nomura Computer Systems Co., Ltd., (current Nomura Research Institute, Inc.)
April 2006 Senior Managing Directors and President, Kansai Regional Headquarters
April 2008 Executive Officer of the Company
June 2008 Director
June 2012 Executive Managing Officer
June 2015 Director & Senior Executive Managing Officer
April 2020 Director (present position)



Director
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 (present position)



Director (Outside)
Hiroki Sekibata

Date of birth: October 25, 1970
April 1998 Registration as attorney at Law (Tokyo Bar Association)
June 2000 Joined Shin-Tokyo Law Office
July 2006 Partner of the Office
October 2007 Joined Bingham McCutchen Murase, Sakai Mimura Aizawa (Foreign Law Joint Enterprise) as a Partner
June 2014 Outside Director of the Company (present position)
April 2015 Joined Anderson Mōri & Tomotsune (Foreign Law Joint Firm) as a Partner (present position)



Director (Outside)
Takao Shiino

Date of birth: September 17, 1954
April 1979 Joined Nomura Research Institute, Inc. (NRI)
June 2000 Director of NRI
April 2002 Division Manager, Distribution & Social Solutions Division, Senior Corporate Managing Director, Members of the Board, NRI
April 2007 Counselor of NRI
May 2007 Executive Director of the Japan Information Technology Services Industry Association
April 2009 Director of the Japan Data Center Council
July 2010 Chair, The Green Grid Japan Liaison Committee
April 2012 President, Nomura School of Advanced Management
June 2012 Executive Director of the School
June 2015 Outside Director of the Company (present position)



Director (Outside)
Hanae Nagata

Date of birth: December 5, 1986
April 2012 Acquired medical license
April 2012 Joined Japanese Red Cross Musashino Hospital
May 2016 Industrial physician of Yahoo Japan Corporation (current Z Holdings Corporation)
May 2018 Representative Director of PhileLife (present position)
June 2020 Outside Director of the Company (present position)

Auditors



Full-time Auditor
Takashi Tomita

Date of birth: August 8, 1958
April 1981 Joined Mitsubishi Corporation
December 2003 Vice President of Mitsubishi Fuso Truck & Bus Australia
December 2007 Vice President of Vinaster Motor Corporation
July 2010 Manager, Market Development, Isuzu Business Division, Mitsubishi Corporation
May 2011 Vice President of Isuzu Philippines Corp.
June 2019 Auditor of the Company (present position)



Full-time Auditor
Kunihiko Fukumoto

Date of birth: July 6, 1958
April 1982 Joined Mitsubishi Corporation
July 2004 Manager of Chemical Products Department, Riyadh Office, Mitsubishi Corporation
April 2010 Manager of Riyadh Branch and Representative for Saudi Arabia, Mitsubishi Corporation
June 2013 Manager of Petrochemical Business Planning & General Manager, Saudi Arabia Petrochemical Business, Mitsubishi Corporation
February 2017 Manager, Internal Audit Office, & Manager, General Affairs, SPDC Ltd.,
June 2020 Auditor of the Company (present position)



Full-time Auditor
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 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 Transfer to Mitsubishi Auto Leasing Corporation
April 2021 Executive Vice President of Mitsubishi Auto Leasing
June 2021 Auditor of the Company (present position)

Skill Matrices of the Officers (as of June 23, 2021)

Name	Attributes	Current positions of the Company	Nomination and Compensation Advisory Committee	Particular expertise and skills						
				Governance/ Business management	Law and legislation/ Compliance	IT Services	DX/New technology/ Consulting	Production technology/ Quality management	Finance/ Sustainability	Human resources/Health and Productivity Management
Osamu Sakiyama		Chairman	Member	○		○				
Masahiro Nakanishi		President & COO and CDO	Member			○	○			○
Masaki Tochizawa		Director				○				
Toshio Uchida		Director		○		○		○	○	
Hiroki Sekibata	Independent Outside	Outside director	Member		○					
Takao Shiino	Independent Outside	Outside director	Chairperson	○		○	○			
Hanae Nagata	Independent Outside	Outside director	Member							○
Takashi Tomita	Independent Outside	Full-time auditor		○	○					
Kunihiko Fukumoto	Independent Outside	Full-time auditor			○					○
Tatsuo Nonaka	Newly appointed Independent Outside	Full-time auditor			○				○	

Executive Officers (As of April 1, 2021)

President & COO and CDO Masahiro Nakanishi	Executive Managing Officer Kenichiro Iida	Executive Managing Officer Kazuhiro Yamaoka	Executive Managing Officer Hideaki Nishimura	Executive Managing Officer Kenkichi Kumagai	Executive Managing Officer Minoru Odaka
Seniority Executive Officer Toshiro Kato	Seniority Executive Officer Hirohumi Kitagaki	Executive Officer Satoshi Yoneda	Executive Officer Hiroaki Hayase	Executive Officer Koji Aihara	Executive Officer Daiki Wakamatsu

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

We have developed an internal control system for recognition of risks in an appropriate manner and to prevent losses and damages. 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.

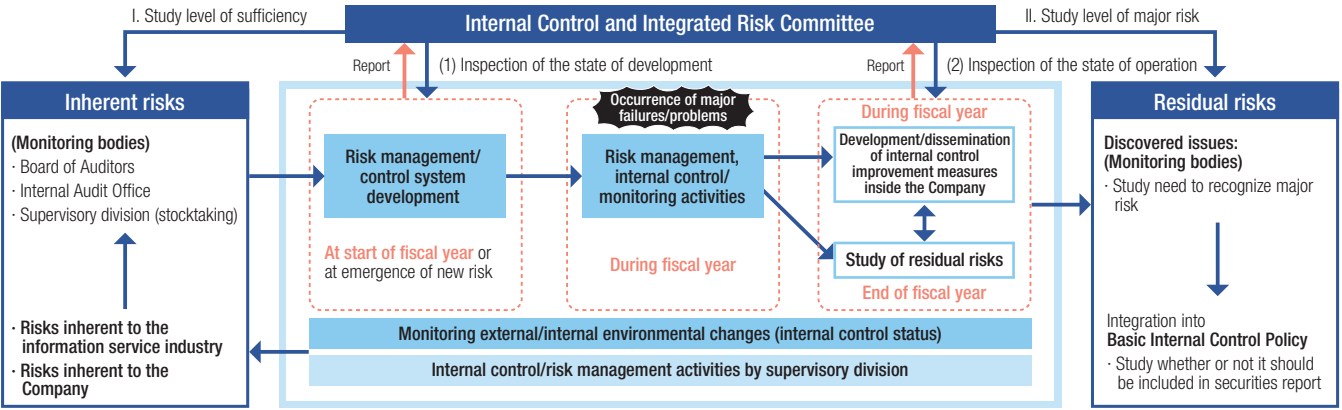
The level of risk and its importance are evaluated from the four perspectives of compliance with laws, trustworthiness of our financial reports, efficiency and effectiveness of business operations and resources/assets. We develop and introduce measures that are required for groupwide implementation.

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

	Theme	Responses
1.	Natural disasters & BCP	<ul style="list-style-type: none">Stockpile replacement and improvements to stockpile managementImprovements and inspection of risk management systemRecovery drills (yearly)
2.	Information security and information management	<ul style="list-style-type: none">Elimination of incidents caused by negligence (violation of rules)Security trainingProcedures in response to a cyberattack
3.	Labor affairs management	<ul style="list-style-type: none">Checking labor conditions and labor management at regular business management meetingsComprehensive management of working hours
4.	Comprehensive awareness and utilization of health and safety management	<ul style="list-style-type: none">Greater use of health consulting officeActions to curb the spread of COVID-19
5.	Ethical conduct	<ul style="list-style-type: none">Actions for improvement, based on compliance survey resultsWider awareness and greater trust in whistleblowing office
6.	Greater information transmission and communication	<ul style="list-style-type: none">Improvements to various special eventsGroupwide action through commemorative anniversary project
7.	Human capital	<ul style="list-style-type: none">Development of self-recommendation system and establishment of management rules

Internal Control and Integrated Risk Committee: Internal Control System



Policy on Project Risk Management

In offering our system solution services, we have established practical guidelines and are promoting 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 departments/divisions should do and what the Quality Management Department should do as part of our groupwide function.

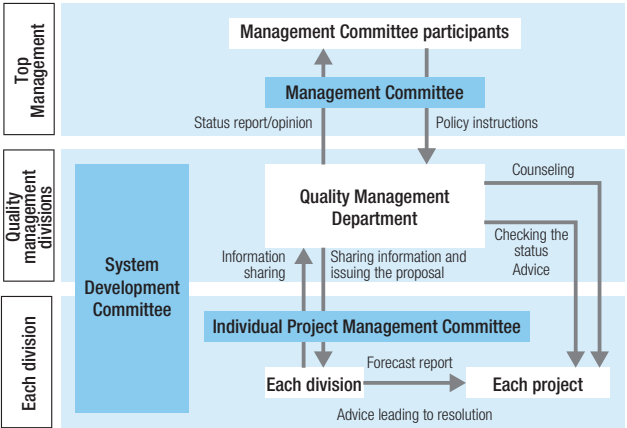
Response to risks

In addition to monitoring the state of the project with each division, risk sharing and the operations needed to resolve issues, etc., we monitor projects groupwide depending on the risk involved in the project and promote 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 and to contribute to effective project management.

Project Risk Management System



Specifically, we clarify the project management roles and organize committees to manage the project risk according to the risk level (level of monitoring and of difficulty in responding), project status and conditions.

Compliance

We regard compliance with laws and regulations as a top priority issue in business management and works 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 its most important management issues and is 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 and our corporate conduct is based on 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/)
<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 employees in supervisory roles and Compliance Committee members. 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. 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 group work and discussion and to implement more comprehensive compliance management.

Compliance Committee activities

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.

Working groups organized by the compliance leader and members of the Compliance Committee conduct reviews and introduce ideas from a variety of perspectives to improve compliance activities.

Group discussions by managers

Lectures and group discussions on themes that have practical application are arranged for managers in each division who serve as project leaders and organizational supervisors.

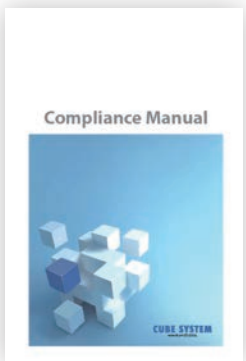
In FY2020, these events were held on the themes of contract management and labor affairs management.

Groupwide awareness survey

In FY2020, we conducted a Compliance & Ethical Awareness Survey with all employees of the Group. Based on the survey findings, employee awareness of specific issues, items of concern related to compliance and ethics, etc. were analyzed and used to strengthen internal awareness promotion activities and upgrade training programs.


Compliance Manual

We publish our own Compliance Manual as one of our compliance awareness activities for use in training programs, etc. The Committee reviews and revises this publication each year to improve our compliance activities.

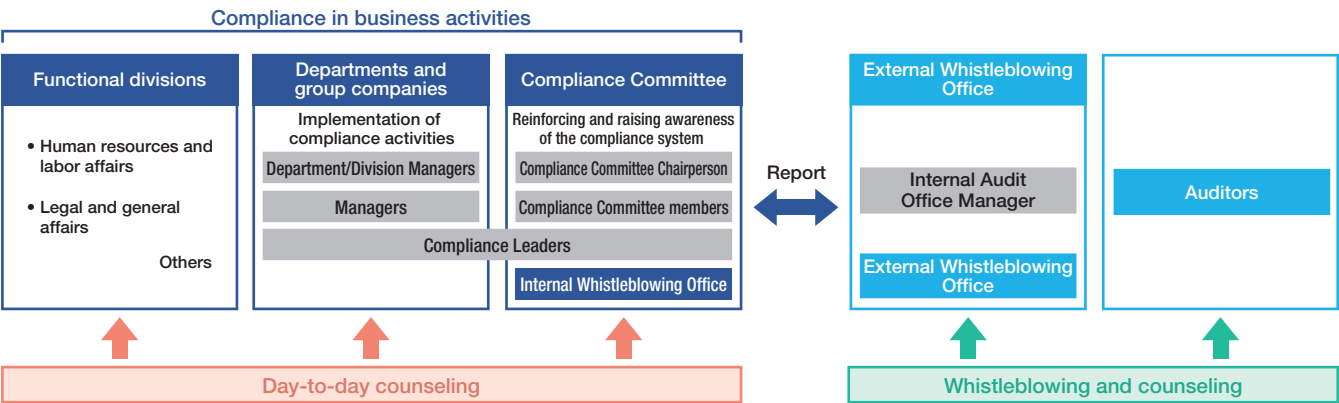


Initiatives regarding Human Rights

We recognize that respect for human rights is the basis for sustainability management. In accordance with our Sustainability Management Basic Policy, 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. This policy prohibits all forms of discrimination and harassment. In addition, we do not condone forced labor or child labor in any form. We are committed to respecting human rights and urge our business partners not to violate human rights. To 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.

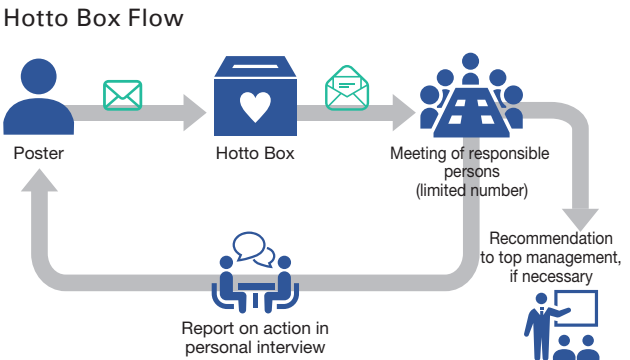
 [Human Rights Policy](https://www.cubesystem.co.jp/en/csr/human_rights/)
https://www.cubesystem.co.jp/en/csr/human_rights/

Compliance Counseling and Action Flow



Compliance comments box – “Hotto Box”

We created “Hotto Box,” a compliance comments box based on an idea proposed in the Compliance Working Group, as a tool to encourage and facilitate counseling, checks and reporting for issues where employees are uncertain whether they should report the issue to an external organization. A trial of the tool produced significant results, and we will conduct further reviews before making the tool available to all employees in the Group.



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.

An information security management structure led by officers in charge of information security has been established for planning, execution and verification of measures to ensure 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/>
-  **Personal Information Protection Policy**
<https://www.cubesystem.co.jp/en/privacy/>

Management System (ISMS)

Based on laws, regulations and official guidelines on information security, we have established Regulations on Confidential Information Management and Information Security Guidelines that define the requirements and organizational management of information security at the Company and the management of 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 effort, in December 2003 we acquired certification under the Information Security Management System (ISMS) conformity assessment scheme and to the BS7799 standard. Migration to ISO/IEC 27001 has been approved for continuing certification. We will continue to upgrade and 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, 2024
Certification body	The Union of Japanese Scientists and Engineers (JUSE) ISO Center

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 cyber attacks	In the event of a cyber-attack, 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 antivirus (anti-malware) software (Symantec), hardware encryption, installation of IT management & control software (SKYSEA Client View), firewalls and two-step identity recognition. In the event of a cyber-attack, we share information on the incident throughout the organization as needed, and take action to prevent a security incident.

Information Security Training

We conduct regularly 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.

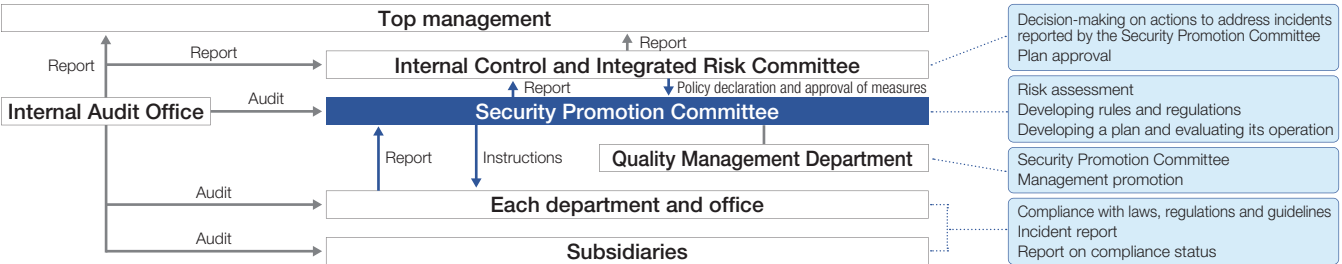
To maintain awareness of information security and compliance rules in the course of business operations, we check all relevant organizations and projects monthly to ensure that they are operating in compliance with the rules. We update the Information Security Compliance Handbook each fiscal year in 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, to ensure swift action and to maintain the necessary security level.



Information Security and Compliance Handbook (for employees)

Information Security Management Structure



Quality Management

Quality management ensures that we offer quality services that our customers can trust. We make continual improvements to maintain customer satisfaction based on feedback from our customers.

Basic Approach

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 work to ensure that the quality policy is understood by all employees when providing service as IT specialists.

Quality Policy

In mobilizing its 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.

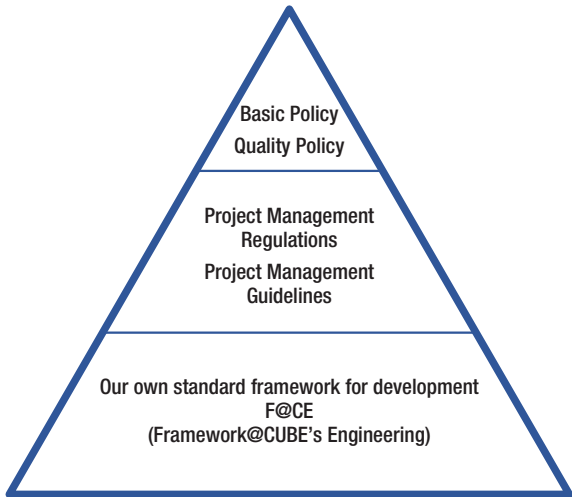
1. Appropriate execution of project management through clear definition of the objectives and goals of the project and development of project plan.
2. Assessment of project status through review meetings for early detection of risks.
3. Third-party monitoring of projects to provide organizational support depending on the project status.
4. Analysis of the differences between plan and performance in each process (phase) for quality evaluation.
5. In the event of faults or problems, swift escalation of an investigation into the root causes 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 knowhow in system development, administration and management to be shared and for improvements in quality and productivity.

Quality Management Structure

We have established a quality policy and initiatives required to provide quality services that ensure customer satisfaction.

Under the quality policy, we have established Project Management Regulations and Project Management Guidelines, which are basic rules and regulations for quality management that require recognition and practice by our employees when offering system solutions services. We work to improve quality and productivity by encouraging each employee to manage their project independently and to share methodologies and knowhow regarding system development, operation and management under F@CE with the entire Group.

Quality Management Structure



Project Management System

We facilitate smooth project administration and early detection/swift response to project risks through project risk management at each sales division, as well as throughout the Group, in order to prevent project losses.

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, we are making efforts to introduce greater advances in our quality improvement activities.

ISO 9001 Certification Details

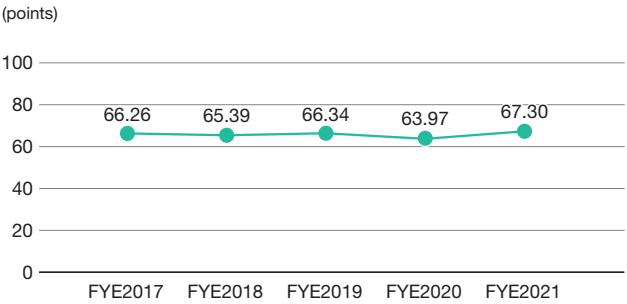
Date of registration	March 1, 2001
Scope of registration	Software development design and maintenance services
Certification standard	ISO 9001: 2015
Registration number	JUSE-RA-1537
Registered organization	CUBE SYSTEM INC.
Expiry date	September 23, 2024
Certification body	The Union of Japanese Scientists and Engineers (JUSE) ISO Center

Customer Satisfaction Survey

We believe that the target customer satisfaction level should be integrated into the project, not in terms of results, but at project startup to achieve our objectives to “create customer benefits” and “create customer satisfaction.” For this reason, we conduct customer satisfaction surveys each fiscal year, and integrate the survey results in our management plan.

In addition to providing system solutions services to resolve issues in customer systems, our goal is also to provide “value-added business.”

Customer Satisfaction



* Each evaluation point (quality, improvements of issues, comparison among competitors, etc.) is calculated to a 100-point maximum.

Survey report presentations

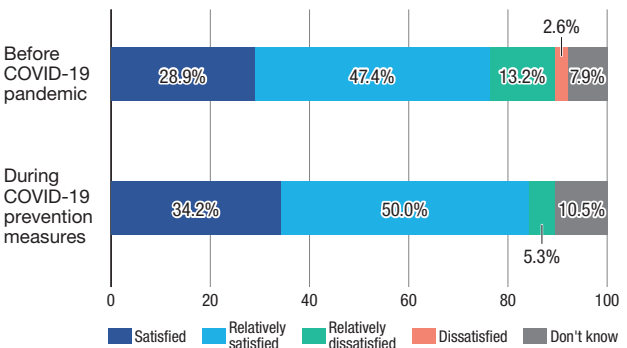
Based on the survey findings, we have report presentations for top management and project leaders. The presentations are designed to identify issues in the target project and to fully accept opinions of the customers. At the same time, the issues confirmed are applied when planning the next management plan and longer-term business strategy to improve customer satisfaction.

Evaluation of project quality

We have introduced a customer satisfaction survey to evaluate project quality as well.

The FY2020 survey showed the difference in conditions compared to earlier surveys due to the COVID-19 pandemic and advances in remote workstyles. In a comparison of customer satisfaction levels before and during the pandemic, no significant impact was found, demonstrating that customer satisfaction with our project quality remains consistent.

Evaluation of Project Quality



Employees

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 well-being.

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).

Among the initiatives underway, we are implementing various measures with the conviction that the health of each employee is vital and “Health and Productivity Management” is an essential employee health policy for the sustainable growth of our Group.

Health and Productivity Management Policy

For sustainable business growth and 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.

Developing Diverse Human Resources through IT

Promoting diversity and inclusion

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 nationality, age, gender, social status, disability or values. In the fiscal year ended in March 2021, we held in-house seminars and work sessions to promote the recruitment of women and their appointment to managerial posts.

Business management founded on full employee participation achieved with “real x online” internal company events


Notwithstanding COVID-19, we utilized IT technologies to organize online communication and groupwide events. Internal company events drawing full employee participation for the management plan for sharing and reviewing activities for the first half of the fiscal year were organized in a “real x online” format and aided employees and the sharing of important agenda items for the second half.

More lively communication

Workstyle diversification brings many communication issues, such as absence of personal contact and diversification of work sites.

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.

In this age of the new normal, our Smile Share Product is designed to foster greater engagement among employees and closer communication.

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

Workstyle reform

We believe that each employee will be able to perform best in working for customers in an environment where each person is able to maintain good mental and physical health while they work. A workstyle reform promotion committee was formed 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 and to promote work styles that are adapted to external changes.

Selected to the Top Hundred Telework Pioneers

In the company’s efforts to actively promote the telework scheme, we were selected as one of the FY2020 Top 100 Telework Pioneers, a program organized by the Ministry of Internal Affairs and Communications.



Groupwide event held in October 2021

Environment

The CUBE SYSTEM Group engages in environmentally friendly business management based on our environmental policy. We are committed to resolving the environmental issues of our customers through our business and creating a sustainable society.

Basic Approach

We established an environmental policy in April 2005 and implement energy and resource conservation in our business activities. We recognize that climate changes in recent years have had a serious impact on human lives and business activities and are an important issue in our business strategy. We established an environmental policy in November 2021 to define our stance in resolving these problems.

Environmental Policy

Environmental Policy

“Practicing environmentally friendly management through business and contributing to reducing our environmental impact and building a sustainable society.”

As our environmentally friendly promotion items, we are working to prevent pollution by our environmental management system and pursuing continual improvements by defining concrete numerical targets and conducting regular reviews.

In addition, we are disclosing relevant information from the four core elements—governance, strategy, risk management and metrics and targets—through assessment of risks and opportunities for our business brought on by climate changes in compliance with the TCFD final report.

Environmental Management System

Under our environmental policy, we are practicing environmentally friendly management through sustainable improvement of environmental performance (energy and resource conservation). We acquired ISO14001 certification in 2005 and are working to continuously improve our environmental management system.

We are committed to implementing environmentally friendly action under all conditions as our contribution to society.

ISO14001 Certification Details

Date of registration:	July 01, 2005
Scope of registration:	Software development design and maintenance services
Certification standard:	ISO 14001:2015
Registration number:	JUSE-EG-417
Registered organization:	CUBE SYSTEM INC.
Expiry date:	July 7, 2023
Certification body:	The Union of Japanese Scientists and Engineers (JUSE) ISO Center

Support for Environmentally Conscious Action

We registered our support for the COOL CHOICE program of the Ministry of the Environment and the objectives of the low-carbon society action plan of the Japan Information Technology Services Association (JISA) in October 2021.



In November 2021, we announced that we would endorse the recommendations issued by the Task Force on Climate-related Financial Disclosures (TCFD). We are reinforcing our actions on mitigation and adaptation to climate change and making the necessary information disclosures to ensure longer-term advancements in our corporate value.



Major Financial Data (Consolidated)

Fiscal year: April 1 to March 31 next year
Please refer also to our Fact Book.

IR Information: Fact Book, etc.
<https://www.cubesystem.co.jp/en/ir/library/factbook>

(Unit: thousand yen)

	Japanese GAAP									
	Medium- to Long-Term Management Vision, V2020 1st Step				V2020 2nd Step			V2020 3rd Step		
	FYE2012	FYE2013	FYE2014	FYE2015	FYE2016	FYE2017	FYE2018	FYE2019	FYE2020	FYE2021
Consolidated Statements of Income										
Net sales	8,431,424	9,241,606	11,217,129	12,527,151	12,622,672	12,899,073	13,559,365	14,325,325	14,708,096	14,788,890
Gross profit	1,304,244	1,431,636	1,555,779	2,035,419	2,146,479	1,985,868	2,344,212	2,448,834	2,503,098	2,840,663
Total selling, general and administrative expenses	780,497	830,206	890,925	1,071,048	1,197,015	1,204,853	1,489,096	1,527,243	1,544,085	1,665,796
Operating income	523,747	601,429	664,853	964,370	949,463	781,015	855,116	921,590	959,012	1,174,867
Ordinary Income	533,333	606,024	701,775	980,606	960,090	811,401	892,818	959,928	976,182	1,295,324
Current net income belonging to parent company stockholder	117,755	337,643	386,552	594,252	628,914	551,317	567,491	596,613	525,318	844,004
Consolidated Balance Sheets										
Current assets	4,615,421	5,043,813	5,285,756	5,024,867	5,221,694	5,549,653	5,763,971	6,156,586	6,241,570	7,253,810
Non-current assets	832,755	942,371	1,374,325	1,873,866	2,103,085	1,853,954	1,771,581	1,989,317	1,805,711	2,190,382
Total assets	5,448,176	5,986,184	6,660,082	6,898,734	7,324,780	7,403,608	7,535,552	8,145,904	8,047,282	9,444,193
Current Liabilities	1,168,683	1,485,078	1,927,331	1,942,400	1,790,876	1,713,470	1,860,775	2,249,681	1,874,225	2,357,766
Non-current liabilities	359,122	352,485	305,358	310,715	815,147	824,603	518,646	532,770	540,267	571,106
Total liabilities	1,527,806	1,837,564	2,232,690	2,253,115	2,606,023	2,538,073	2,379,422	2,782,451	2,414,493	2,928,872
Total net assets	3,920,369	4,148,619	4,427,391	4,645,618	4,718,757	4,865,534	5,156,130	5,363,452	5,632,788	6,515,320
Total liabilities and net assets	5,448,176	5,986,184	6,660,082	6,898,734	7,324,780	7,403,608	7,535,552	8,145,904	8,047,282	9,444,193
Consolidated Statements of Cash Flows										
Cash flows from operating activities	101,333	451,334	317,999	503,348	527,316	936,428	388,839	773,119	747,331	1,043,068
Cash flows from investing activities	54,670	△ 321,680	△ 172,463	△ 307,421	33,243	94,825	28,280	46,902	25,957	58,501
Cash flows from financing activities	△ 125,866	△ 151,339	△ 188,964	△ 439,289	△ 241,980	△ 610,986	△ 392,054	△ 531,081	△ 339,283	△ 215,207
Effects of exchange rate change on cash and cash equivalents (△ means decrease)	△ 658	△ 490	△ 777	3,311	△ 9,315	△ 6,057	△ 1,381	△ 4,031	△ 7,796	4,169
Net increase (△ means decrease) in cash and cash equivalents	29,479	△ 22,175	△ 44,205	△ 240,050	309,263	414,210	23,684	284,907	426,209	890,531
Cash and cash equivalents at end of period	2,405,167	2,382,991	2,338,785	2,098,734	2,407,998	2,822,208	2,845,893	3,130,800	3,557,010	4,447,541
Per Share Information										
Earnings per share (yen)	7.85	22.51	25.77	39.75	43.22	39.15	40.59	43.25	38.69	62.11
Book value per share (yen)	260.18	275.34	293.86	316.67	322.76	346.47	372.23	393.29	411.96	476.52
Dividends per share (yen)	8.50	11.00	11.00	14.00	14.00	14.00	16.00	16.00	18.00	20.00
Financial Ratios										
Equity ratio (%)	71.6	69.0	66.2	67.0	64.1	65.4	68.1	65.4	69.6	68.6
Return on equity (%)	6.1	8.4	9.1	13.2	13.5	11.6	11.4	11.4	9.6	14.0
Total asset turnover ratio (times)	1.5	1.5	1.7	1.8	1.7	1.7	1.8	1.8	1.8	1.6
Financial leverage (times)	1.4	1.4	1.5	1.5	1.6	1.5	1.5	1.5	1.4	1.5
Return on assets (%)	9.6	10.6	11.1	14.5	13.5	11.0	12.0	12.3	12.3	14.8
Ratio of operating income on sales (%)	6.2	6.5	5.9	7.7	7.5	6.1	6.3	6.4	6.5	7.9
Ratio of earnings on sales (%)	1.4	3.7	3.4	4.7	5.0	4.3	4.2	4.2	3.6	5.7
Dividend payout ratio (%)	51.2	48.9	42.7	35.2	32.4	35.8	39.4	37.0	46.5	32.2

* With the application of the Accounting Standards on Business Combinations (ASBJ Statement No. 21, September 13, 2013), "current net income" has been defined as "current net income belonging to parent company stockholder," starting in FYE2016.

* 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 FYE2015. Hence, current net income value 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.

* In FYE2012, the dividend payout ratio was calculated with adjustments to the income value by excluding the increase in the corporate tax adjustment value resulting from the change in the tax rates and the partial reversal in deferred tax assets.

ESG Data

Environment

CO₂ Emissions (in Japan)

	FY2016	FY2017	FY2018	FY2019	FY2020
Total emissions					
Scope 1 (t-CO ₂ e)	0	0	0	0	0
Total emissions					
Scope 2 (t-CO ₂ e)	132	127	136	137	139
Scope 1+Scope 2 (t-CO ₂ e)	132	127	136	137	139

* Emissions under Scope 1 and Scope 2 have been calculated with the following equation.
Scope 1 emissions: Consumption of each fuel type × Energy conversion factor × Emission factor
The emission factor is as set in the Act on the Promotion of Global Warming Countermeasures
Scope 2 emissions: Electricity consumption × Emission factor
The emission factor is as set in the Act on the Rationalizing Energy Use
* Covers Osaki Wiz Tower (Osaki Office) only

Energy Consumption

	FY2016	FY2017	FY2018	FY2019	FY2020
Energy consumption (Electricity kWh)	290,497	279,472	298,443	301,343	304,310

* Covers Osaki Wiz Tower (Osaki Office) only

Social * Non-consolidated data

Proportion of the Employees

		FY2016	FY2017	FY2018	FY2019	FY2020
Number of Employees (persons)	Male	407	433	441	447	461
	Female	109	124	131	144	164
By region (persons)	Japan	513	556	569	588	622
	Vietnam	2	1	2	2	2
	China	2	1	1	1	1
Gender ratio	Male	79%	78%	77%	76%	74%
	Female	21%	22%	23%	24%	26%
Number of managerial personnel (persons)	Male	73	81	92	102	106
	Female	2	3	3	4	5
Number of new graduate new hires (persons)	Male	46	37	35	33	39
	Female	6	13	14	19	24
Number of mid-career hires (persons)	Male	11	16	13	11	8
	Female	5	5	7	7	7
Number of retired employees (persons)		50	30	57	54	40
Average length of employment (years)		8.8	7.7	7.9	8.2	8.3
Average annual compensation (in thousand yen)		4,903	4,884	5,114	5,080	5,018
Job retention rate for new graduate new hires after three years		73%	91%	75%	78%	65%

*The number of employees include those on overseas assignments.

Employment of Employees with Disabilities

	FY2016	FY2017	FY2018	FY2019	FY2020
Number of employees with disabilities (persons)	6.5	6.5	5.5	9.5	10
Rate of employees with disabilities	1.2%	1.2%	0.9%	1.6%	1.6%

FY2020 Childcare Leave-Taking Status

	Total	Male	Female
Number of employees qualified for childcare leave (persons)	625	461	164
Number who took childcare leave (persons)	5	1	4
Employees who returned from childcare leave during the term of this report	6	0	6
Employees who are enrolled more than 12 months after returning from childcare leave	5	0	5
Job return rate after childcare leave	100%	0%	100%
Job retention rate after childcare leave	71.4%	0%	71.4%

Health and Productivity Management

	FY2016	FY2017	FY2018	FY2019	FY2020
Number of workplace accidents (cases)	0	0	5	1	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

	FY2016	FY2017	FY2018	FY2019	FY2020
Training cost per employee (in thousand yen)	82	108	95	85	60

Governance *Non-consolidated data

Proportion of directors

	FY2016	FY2017	FY2018	FY2019	FY2020
Total directors (persons)	7	7	7	7	7
Outside directors (persons)	2	2	2	2	3
Female directors (persons)	0	0	0	0	1

Board of Directors Meetings

	FY2016	FY2017	FY2018	FY2019	FY2020
Number of meetings (times)	17	18	14	15	15
Average attendance rate	100%	100%	100%	100%	100%
Average attendance rate for outside directors	100%	94%	100%	100%	100%
Average attendance rate for outside auditors	100%	100%	100%	100%	100%

Board of Auditors Meetings

	FY2016	FY2017	FY2018	FY2019	FY2020
Number of meetings (times)	16	15	16	15	18
Average attendance rate for all auditors	100%	100%	100%	100%	100%
Average attendance rate for outside auditors	100%	100%	100%	100%	100%

Corporate Information

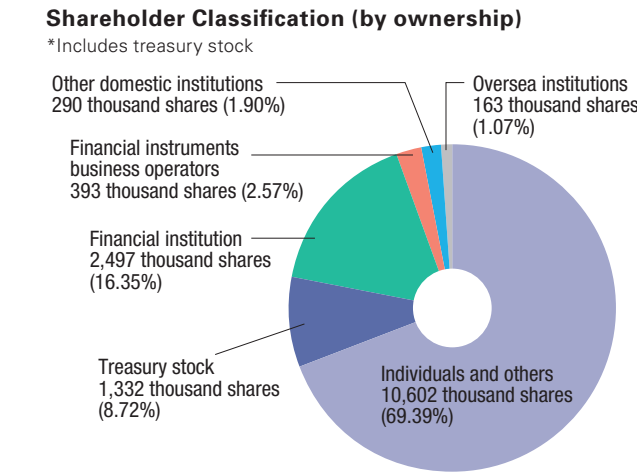
Corporate Information

Company name	CUBE SYSTEM INC.	Establishment	July 5, 1972
Head office	Osaki Wiz Tower, 2-11-1 Osaki, Shinagawa-ku, Tokyo	Capital	768.97 million yen
		Number of employees (consolidated)	833 (as of April 1, 2021)

Stock information

(As of March 31, 2021)

Total number of issuable shares	22,364,000
Total number of issued shares	15,279,840*
*The number as of May 31, 2021 is at 14,500,000, with elimination of treasury stock.	
Number of Shareholders	9,542



Major shareholders (top 10)

Name of shareholder	Number of shares held (thousands of shares)	Shareholding ratio (%)
Osamu Sakiyama	1,621	10.61%
CUBE SYSTEM Employee Stockholding Meeting	1,551	10.15%
CUBE SYSTEM INC.	1,332	8.71%
The Master Trust Bank of Japan, Ltd. (Trust Account)	456	2.98%
Akemi Onuki	401	2.62%
The Japan Master Trust Bank, Ltd. (Executive Remuneration BIP Trust Account)	357	2.34%
Toshio Uchida	347	2.27%
Masatsugu Sakurai	316	2.06%
Toshikuni Sato	288	1.88%
MUFG Bank, Ltd.	258	1.68%

Offices

