

Positively, Change, Innovate



Integrated Report 2023

(FY9/22)

IT Solution for You!



PCI Holdings, INC.

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PCI Holdings, INC.

Regarding Integrated Report 2023

Editorial policy

We have issued this “integrated report,” so that all stakeholders, including shareholders and investors, will understand the policy and initiatives of the PCI Holdings Group (hereinafter called “our group”) for creating value.

This integrated report clarifies our group’s forte, which is a source of value creation, and the input and output of our value creation process, and describes the current status of our group. It also identifies material issues in sustainability-oriented management, and describes our efforts to create value through business and our group’s activities.

When producing this integrated report, we studied stakeholders’ concerns and interests, interviewed executives and others inside and outside our company, and selected and decided important themes we should report, with reference to the “International Integrated Reporting Framework” of the International Integrated Reporting Council (IIRC) and the “Guidance for Collaborative Value Creation” of the Ministry of Economy, Trade and Industry.

Our website (<https://www.pci-h.co.jp/>) includes our policies and other contents in addition to this integrated report.

●Covered period: Fiscal year ended September 2022
(October 1, 2021 to September 30, 2022)

*Some of the activities from October 2022 are included.

●Subject organizations: PCI Holdings, INC. and its consolidated subsidiaries

*This integrated report was produced, under the assumption that Leafnet Co., Ltd. and Trackimo GPS Co., Ltd., which are consolidated subsidiaries, will be excluded from the scope of consolidation, as announced in “Notification on the conclusion of basic agreements for transfer of shares of subsidiaries (transfer of subsidiaries) and the posting of extraordinary income” dated June 27, 2023.

●Issue date: August 2023

●Inquiry about this integrated report: IR Office of our company
(ir@pci-h.co.jp)

Notes on statements about future prospects

The statements about future prospects in this integrated report, including the future plans, outlooks, and strategies of our group, are based on certain assumptions that were considered as reasonable by our company at the time of disclosure. Accordingly, there is a possibility that actual results, etc. will be significantly different from our prospects.

Positioning of this integrated report

	Financial information	Non-financial information
Documents we issue	Integrated report	
	Shareholders' newsletter	
	Securities report	
	Convocation notice	
	Corporate brochure	
Website	Corporate site	

The documents shown in the above table are available at our website.

<https://www.pci-h.co.jp/>

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I . Basic policy for value creation

Corporate ethos

We pursue the happiness of all of our employees and contribute to the development of society through the improvement in customer satisfaction.

(Background of the corporate ethos)

All employees of our group can feel that they are contributing to the growth of society when they satisfy and please customers.

Our company will establish an environment where every employee can grow and work while maintaining his/her mental and physical health, so that they can consider their jobs as worthwhile, be proud of their jobs, and feel fulfilled and happy.

We believe that our social mission is to keep tackling issues around the world with IT services provided involving all employees of our group.

Slogan

Corporate group specializing in engineering for contributing to the “realization of a secure, safe, and prosperous society” with IT

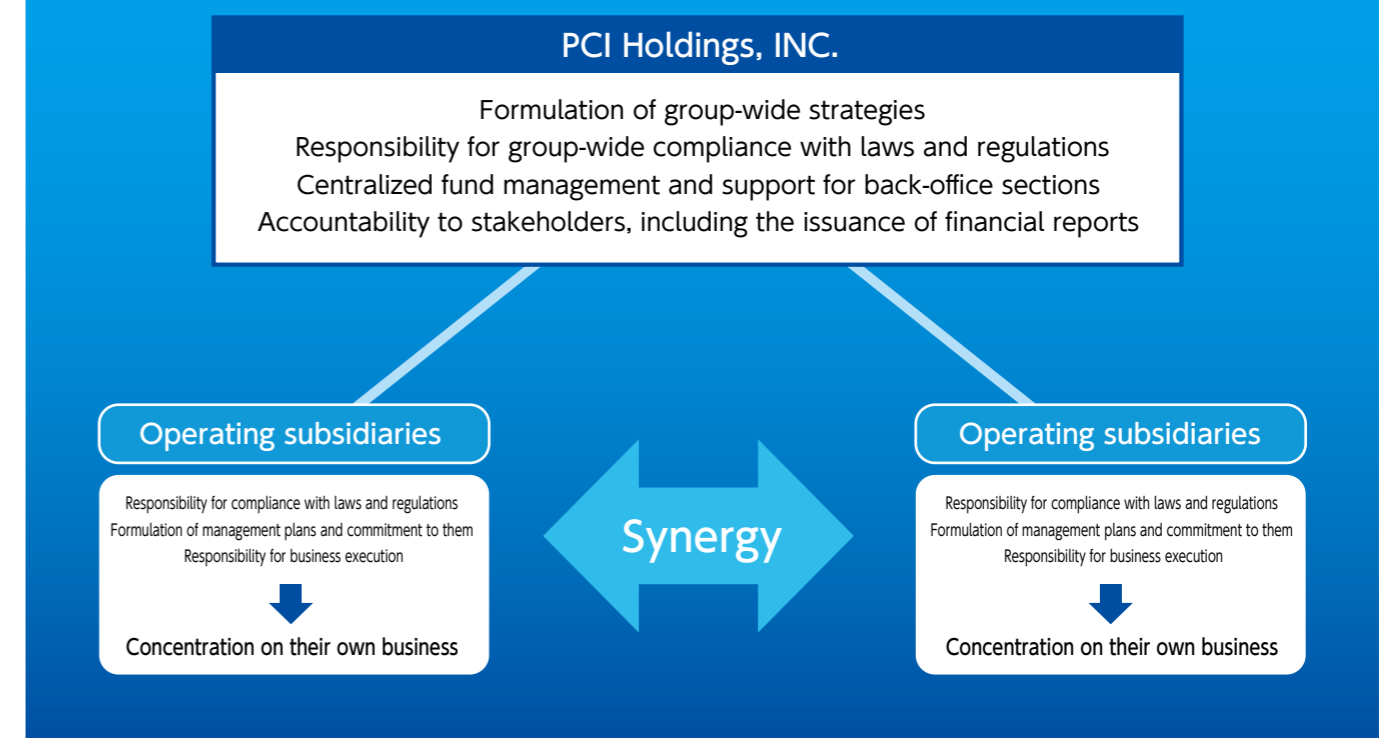
Course of action

To keep changing and innovating things positively

Outline of the PCI Holdings Group

Our group is a corporate group composed of multiple IT providers who will solve each customer’s problems by utilizing information technology (IT). It is characterized by the management style in which IT providers that possess unique technologies share the same value and vision and join hands with one another under our company, which is a pure holding company, and also a variety of IT engineering skills arising out of this management style. By enabling the utilization of managerial resources of our group while taking advantage of the unique corporate culture and business features of each consolidated business company, we are able to respond to changes in the market environment and social needs swiftly and flexibly, with the aim of improving our corporate value continuously.

Management model of our group



Outline of business of our group

The business segments of our group will be “IT Solutions Business,” “IoT/IoE Solutions Business,” and “Total Semiconductor Solutions Business” until the term ending September 2023, but from the term ending September 2024, our business segments will be “Engineering Business,” “Product/Device Business,” and “ICT Solutions Business.”

(▶ See “Policy for each business segment” on p. 35.)

Engineering Business

[Information technology services for satisfying each client’s requests and specs in a broad range of industrial fields]

Clients: Manufacturers of automobiles, construction machinery, cameras, semiconductor manufacturing equipment, etc.

Leading system integrators in the fields of finance, distribution, government offices, etc.

Products/services: Software development skills (dispatch of engineers)

Product/Device Business

[Design, development, and sale of hardware and devices for specific industries]

Clients: Manufacturers of medical apparatus, all-in-one printers, and semiconductors

Products/services: Embedded computers, design of semiconductors, and testing technology

ICT Solutions Business

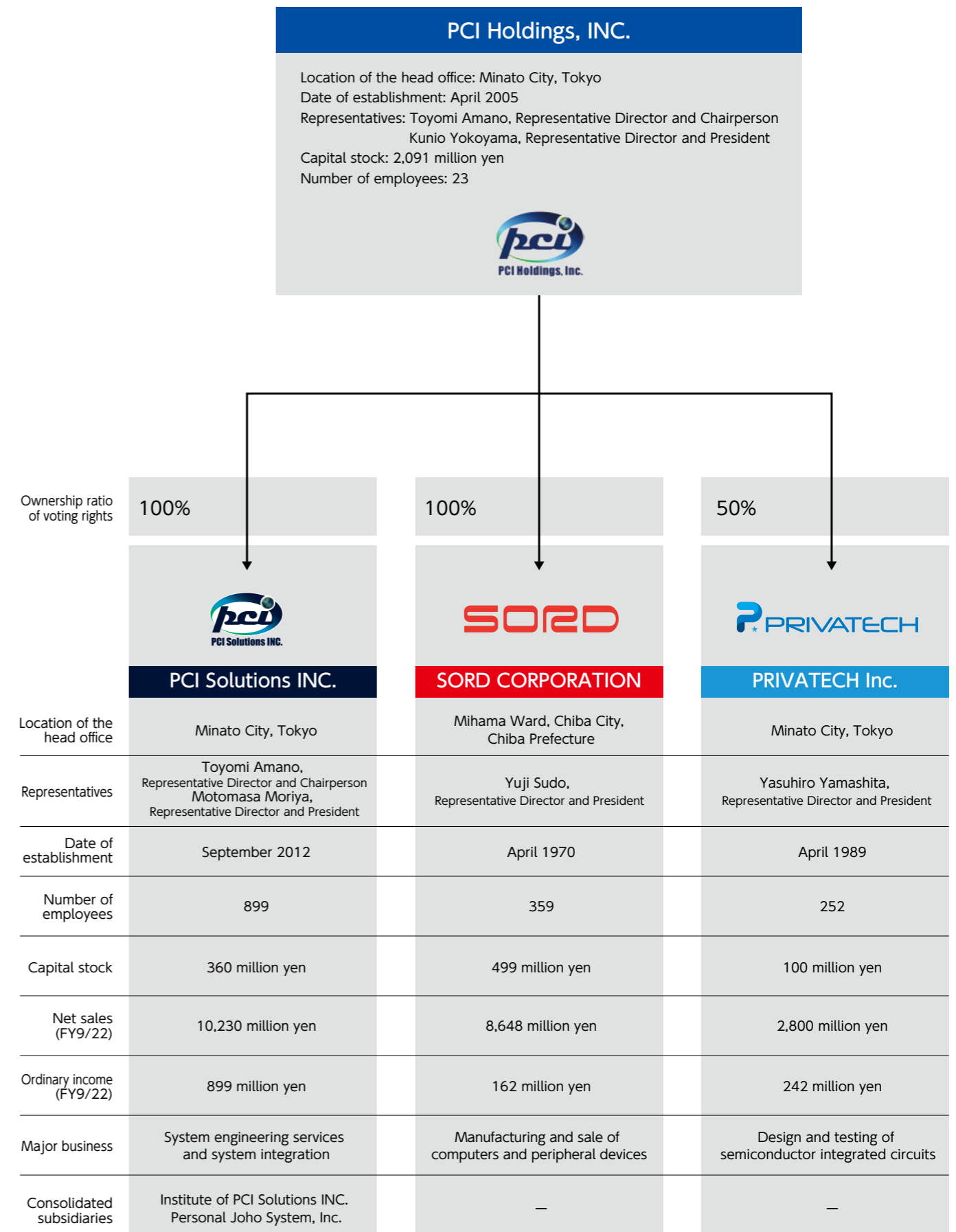
[Problem-solving through consulting services utilizing ICT in a broad range of fields]

Clients: General business corporations

Products/services: Solutions based on AI (especially for image recognition)

Integration of services

Outline of operating companies and the organizational chart of our group (as of the end of March 2023)



*“Number of employees” means the number of employees of each company, excluding employees loaned from our group to companies outside our group and including employees from companies outside our group to our company.

Message from the president



Fulfilling our social mission
Shifting to “multiplicative” M&A
Accelerating human capital investment
Focusing on return on capital and PBR

Kunio Yokoyama,
Representative Director and President

Introduction

It has been one year and three months (as of June 2023) since I became Representative Director and President of PCI Holdings, INC.

This is the third company for which I have served as president. In the past, I have been involved in the management of the Sumitomo Mitsui Banking Group and the Japan Post Group.

One of the reasons I decided to take on the management of this company is that it was an emerging young startup with great growth potential, and I saw great potential in the power of IT solutions to a variety of social issues.

One of my most important management philosophies is “to fulfill our social mission.” Through my long involvement in the planning of management strategies that place the highest priority on IT, and through my experience in executing management, I am convinced that IT has the power to solve various social issues. I feel that there are

various disparities and they are widening in the world today between individuals, generations and regions. I believe that IT, in particular, can be a means of bridging the information gap. For example, even companies with growth potential that are currently in decline can regain momentum by transforming their business models and improving efficiency through DX. I believe it is an important role for IT companies to also shine a light on fields that seem to be stagnant and revitalize them.

Our corporate ethos is to “pursue the happiness of all of our employees and contribute to the development of society through the improvement in customer satisfaction.” Our motto “IT Solution for You!” is printed on our business cards. The motto on our business cards expresses our determination to help solve the problems with all our stakeholders by keeping each one of our employees constantly aware of our social mission.

Review of the medium-term management plan “PCI-VISION 2023”

The plan is progressing smoothly

Our group has been promoting its medium-term management plan “PCI-VISION 2023,” which will end in the fiscal year ending September 2023. The plan is progressing well, and a detailed description of its progress is given in the relevant section of this integrated report. During the past three years, business models and lifestyles have been rapidly digitized as a result of the spread of COVID-19, which has greatly shaken economic activities, social order, and lifestyles. I believe that our favorable business performance is the result of accurately capturing this demand.

Is our approach to business too short-term?

However, we are not satisfied with these results. I fear that our group’s approach to business may have fallen into short-term thinking. Relationships with customers are based on permanent mutual growth, and to that end, it is necessary to fully recognize each other’s strengths and weaknesses. It is not enough to simply respond to the customer’s “current” needs. It is also necessary to proactively make proposals from the perspective of enabling their growth toward the “future” and win the customer’s trust. Our fundamental way of doing business has not been shaped in this way, which is what concerns me.

Long-term vision “PX 2032”

The long-term vision “PX 2032” was formulated through discussions with mid-level managers who will support the PCI Group in the future.

Since 2022, we have been promoting various measures to overcome and break out of this situation. First, in July 2022, we established a Sustainability Committee. Based on the opinions of experts, this committee forecasted changes over the next 10 years in more than 50 areas, including the environment, society, economy, politics, technology, and legal systems, and examined which of these areas would represent important risks and business opportunities for our group. Based on the results, we formulated the “basic sustainability policy” and identified

“material issues.” At the same time, we held discussions on our “long-term vision” and “To Be state” with mid-career managers, who will lead the PCI Group 10 years from now. We clarified our ideal state 10 years from now and discussed the direction of “PX (PCI Group Transformation).” Based on these preparations, we formulated a new medium-term management plan, “PCI-VISION 2026.”

The company’s second founding period “PCI-VISION 2026”

We came up with a growth strategy appropriate for the company’s “second founding period.”

“PCI-VISION 2026” is a backcasting-based growth strategy to realize a long-term vision that is completely different from previous medium-term management plans. Until now, our medium-term management plans have been an extension of the status quo. However, the starting point for the next medium-term management is the idea of what kind of company we want to become in the next 10 years. When considering the plan, we envisioned our To Be state and conducted an objective analysis of the gap between the To Be state and the As Is situation. In short, PCI-VISION 2026 is a roadmap for growth to fill the gap. To be more specific, to realize PX 2032, we have formulated “PCI-VISION 2026,” which is positioned as a period for laying the foundation for the realization of PX 2032. Therefore, our growth strategy is naturally on a different level than in the past.

The PCI Group has expanded by M&A. Founded in 2005 by Chairperson Amano with less than 10 employees, the company has grown to 30 billion yen in revenue and to have more than 1,600 employees, mostly engineers, in less than 20 years. Our strategy of “federal integration,” in which we maintain the corporate culture of our fellow companies under the holding company of PCI Holdings, has been a success. However, to get closer to the To Be state in our long-term vision, I believe that we need a strategy that is on a different level than before. I think that IT companies cannot survive unless they have a sales scale of at least 50 billion yen, or even 100 billion yen. To achieve this scale of business, linear growth from the present is not enough. We need non-linear growth that pops up somewhere from the current situation. To achieve

non-linear growth, we need innovation in our group. We are now entering our second founding period, and the time has come for us to consider new strategies to achieve non-linear growth and transformation. This “PCI-VISION 2026” is the embodiment of such strategies.

M&A needs to shift from “additive” to “multiplicative.”

Going forward, our group will continue to utilize M&A as one of its growth drivers. However, we will make a fundamental shift in our M&A strategy. We will shift from “additive” M&A to “multiplicative” M&A. “Additive” M&A increases revenue and costs. In some cases, revenue may increase, but profit margin may decrease. Business expansion without improvement in profitability and other qualities is not growth, but a mere expansion. In “multiplicative” M&A, synergies are created with the acquired company to expand revenue, while costs are reduced through consolidation of back-office departments and standardization of systems, and greater R&D investment is made for the future by using increased investment capacity. Only through “multiplicative” M&A can the expansion be transformed into qualitative growth. We are aiming for growth in this way. However, in reality, group synergies are not fully realized currently. Investors point out the high SG&A ratio. This means that there is still much room for improvement within our group.

We clarified our business portfolio strategy.

Next, we clarified our business portfolio strategy. In this medium-term management plan, we have made fundamental changes to the classification of our business segments. The three new segments are the Engineering Segment and the Product/Device Segment, which generate stable cash flow, and the ICT Solutions Segment, which is a growth driver in which we are aggressively investing for future growth. The reason for changing the segments is to clarify the business portfolio strategy and then determine the allocation of resources to each business and the growth strategy and investment policy for each business. For example, the growth strategy for the Engineering Segment and the Product/Device Segment, which are our stable core businesses, is to expand these businesses by M&A with companies

engaged in similar businesses. If there is a company that possesses technology that our group lacks and shares the same values as ours, we will promote business integration and business alliances. On the other hand, we will also consider selling existing businesses in the future. In light of our growth strategy, we will consider divesting businesses that we judge cannot become core businesses or are unlikely to generate synergies, under a clear “selection and discard” attitude. We will sell businesses that have little potential to reinforce or complement the core business. This is “subtractive” M&A.



We accelerate investment in employees’ skill development.

Needless to say, the PCI Group has not grown solely by M&A. We have also actively invested in R&D to expand existing businesses and create future businesses.

However, in retrospect, there is one investment that was not enough. It is an investment in human resource development. As an IT company, our employees are our assets, and we are a business that can only exist when our employees provide value to our customers. I mentioned earlier that achieving non-linear growth requires innovation in our group. There is no doubt that our employees are the main players in this transformation. Nevertheless, I regret that we have not invested enough in training our employees.

In this new medium-term management plan, we have fundamentally revised this point. We will accelerate investment in employees’ skill development. We do not view investment in employee training as an expense, but rather as an investment to cultivate “human assets.” It takes a certain amount of time for employees to develop their skills. In the meantime, there is a possibility that earnings will stay a plateau. However, we believe that if we

make the right investments, earnings growth will surely follow. This is a necessary period to create a new corporate identity and enhance subsequent growth. Once again, we will continue to provide training to improve the skills of our employees. We will continue to nurture our “human resources.” I hope that we will be branded as “PCI, it’s training and cultivating human resources” in the near future, and that many motivated personnel will join our company.

Developing a group of engineers and relationship managers

Let me reiterate that the social mission of the PCI Group is summed up in our corporate ethos: “We pursue the happiness of all of our employees and contribute to the development of society through the improvement in customer satisfaction.” Our motto “IT Solution for You!” depicts how we will realize this. We aim to provide optimal solutions for our customers through IT. I believe this can be paraphrased as “comprehensive technology consulting.” So, what kind of human resources with the right skills are needed for our group to conduct a comprehensive technology consulting business? I believe there are two key competencies.

The first is the ability to keep abreast of the trends in the world and take action to surpass them. The PCI Group specializes in technology. Technological innovation opens the frontiers of society and the economy. A good engineer is someone who tries to stay on the cutting edge. We need such “human resources” to provide IT solutions to our customers. They are “human resources” who have a deeper knowledge of technology than our customers and can explain in an easy-to-understand manner how new technologies will change the world. We have more than 1,500 engineers in our group. We need to think about how these engineers should face the challenges of the world in the future. Since we are a technology company, we need to improve the skills of each of our engineers and develop them into a group of outstanding engineers. I also believe that the challenge of cutting-edge technological innovation is exciting and fun for engineers. I am convinced that if we could become a company with a group of engineers in which each engineer always envisions how our group’ s technological capabilities will bring excitement and happiness to society, we will be

trusted and appreciated by the world.

Another key competence is the ability to build relationships with customers. In order for the PCI Group to be a comprehensive technology consulting firm, we need to have a broad and deep understanding of our customers, not just technological knowledge. Here, I mean a relationship manager in the banking industry, who knows all the key people in a company, from the headquarters to the factory, the flow of money, the movement of goods, and everything about the company on the same level as its employees. It is precisely because they have a good understanding of the customers that they can propose solutions to the customer’ s problems any time, and I believe real business starts from there. When a customer asks for a consultation, I believe that the response should not be double, but rather tenfold, and that it should resonate with the customer and they become so impressed and moved that they say, “You’ re willing to go that far?” or “You’ re willing to make suggestions to that extent?” The foundation for our future growth is to develop relationship managers in all group companies who can build a deep relationship of trust with customers and make them say, “I will believe 100% in what you say.”

As we develop a group of excellent engineers and relationship managers, we will be able to identify what kind of cutting-edge technologies are currently available, in what areas they will add value when used, and to which sectors and customers to propose them. In order for our group to create value over the medium to long term, we must always be able to make decision to which industrial sectors we should allocate our management resources.

Management objectives focused on return on capital and market valuation

As a final part of the explanation of “PCI-VISION 2026,” I would like to discuss financial management targets (KPIs). First of all, the most important financial targets are ROE (return on equity) and ROIC (return on invested capital). The management goal of a public company ultimately boils down to return on capital. We need to achieve a stable return on capital over the medium to long term that exceeds ROIC expected by our shareholders and the cost of capital from our perspective. We have clarified our business portfolio strategy, and ROIC allows

us to fairly measure the results of businesses of different natures. From the perspective of an independent outside director, it is an easy-to-understand indicator for monitoring the progress of our plans and the growth of our business.

In addition, we have set a goal of increasing PBR (Price Book-value Ratio) over two times as an indicator for stock market evaluation. Since the most recent PBR is slightly more than 1, setting a PBR of 2 is a strong indication of management's intention to focus on raising stock price. Although our group's business performance has been growing steadily, the rise in stock price has been limited. We believe this is because our IR activities to date have not been sufficient in terms of disclosure, and we have not sufficiently communicated our business and growth strategy to investors. Stock prices are determined by the ability to generate cash flow into the future, not the present. If we raise ROE to 15% in the medium term, we will need a PER (Price Earnings Ratio) of about 15 to achieve a PBR of 2. The only way to raise PER is to raise investors' expectations to our growth. This is the responsibility of all directors of our group. The publication of our first integrated report, including the contents of our new medium-term management plan "PCI-VISION 2026," which we have introduced, is the first step toward strengthening our management and IR capabilities.

The reason why we chose PBR as a market valuation indicator is because of our policy of strengthening investment in employee training, as I mentioned earlier. The company's intellectual property and intangible assets are evaluated as negative if PBR is below 1. Although our group's PBR is above 1, it is not a high level. If we invest in employee training, our P/L will show a decrease in profit, but our B/S, including intangible assets, will show an increase in human capital. If investment in training is appropriate in scale and content, it will surely lead to future earnings growth. In order for investors and other stakeholders to judge whether our investment in training is appropriate or not, we will disclose information on the content, amount, and breakdown of our investment in training. If investors trust the story and logic described above, stock price will rise and PBR will improve, even if earnings stay a short-term plateau. Going forward, the Board of Directors will monitor PBR as an important

management indicator and practice management that ensures sustainable growth from a medium to long-term perspective.

Sustainability-related issues and purpose-driven management

We have continued to convey the importance of our purpose of "fulfilling our social mission" for about 20 years.

Here, I would like to discuss my approach to sustainability-oriented management. As I mentioned at the beginning, one of my most important management philosophies is to "fulfill our social mission." I have repeatedly emphasized this to all employees at the companies in which I have served as the top management. Recently, there has been much talk about the need to instill "purpose (significance)" in corporate management, and for the past 20 years, I have continued to emphasize the importance of this "purpose." Companies, like individuals, cannot exist without social interaction. A company exists for society. A company can survive only if it fulfills its social mission, and conversely, if it neglects this mission, it will not grow further and will decline.

In other words, fulfilling a social mission and achieving growth is not contradictory, but rather on the same vector. I believe that precisely because there are social issues, efforts to solve them are born and markets are created. Markets will certainly emerge even for social issues for which solutions have not yet been established. The more complicate the social issue and the more untapped the market, the more likely it is that more value-added businesses will emerge. Precisely because it is a difficult social issue, companies that open up that frontier need to adopt sharp strategies with extremely high uncertainty. This is why I have been telling people about the importance of perspectives for 20 years. Taking extreme strategies is risky. However, if the social issue fits the purpose of the company, the company can work toward solving it without fear of risk.

Co-creating the right value with stakeholders

Thinking in this way should change the way we view stakeholder capitalism. It is extremely important to promote value co-creation with stakeholders. However, it is not possible to co-create value with all stakeholders in the same way. Companies that turn a blind eye to their social missions and forget their corporate ethos are missing out on growth opportunities through the resolution of social issues, and even if they can recognize growth opportunities, they cannot be expected to make management decisions that take big risks to resolve issues. Such companies may be good today, but they may be gone in a few years.

We must grasp what kind of values our current business partners have and how useful they are to society. In light of our corporate ethos, we will actively engage in value co-creation with such companies that share the same sense of values and sense of mission. On the other hand, we will terminate business relations with companies that do not share our values and mission. As a result, in the long term, our group's customers will be mostly companies that share our values and can co-create value. Needless to say, the value creation of our group will be greatly enhanced. Purpose-based selection of stakeholders will lead to a shift to a customer base that can co-create value with us in the medium to long term, and the added value we create will continue to increase. As a result, the return to employees will increase, and it will be possible to "pursue the happiness of all of our employees." I am striving to share this concept with the management of our group companies. I believe that such a company is valuable in the world.

It is important to identify a social mission based on the needs of the times.

I believe that there are two types of social missions: universal missions and missions driven by the needs of the times. The universal mission represents the management intention of the company at the time of its foundation, and it must never be forgotten while the company continues to exist. Based on this universal mission, we believe that a company can achieve further growth and its corporate brand can shine brighter only when it grasps and fulfills its social mission based on the demand of the times. By responding to the demand of the times, brands such as "PCI strong in

mobility" or "PCI for training" will spread both in the industrial world and in the capital markets.

So, what is the mission for us, the PCI Group, that meets the needs of the times? First, there is the issue of disparity which I pointed out in the "Introduction." I feel that various disparities exist and are widening in the world today, between individuals, generations and regions. IT can be a means to bridge this disparity. As for the issue of climate change, our contributions in the field of renewable energy are limited, but we have much to contribute in terms of energy-saving technology. In the field of mobility, the automotive industry is being forced to undergo a once-in-a-century transformation, driven by cutting-edge technologies such as CASE (Connected, Autonomous, Shared, and Electric). In particular, the fusion of connected software and communication control technologies is an area in which we can demonstrate great strength. The field of health and medical care is also becoming a very important issue. Although there are fields such as embedded PCs related to medical equipment that have established markets, many social issues and potential markets remain in this field. There is still room to revitalize mature industries and SMEs through DX. In any case, it is my dream to create solutions to various social issues through our discernment. This is the key to building our corporate brand as "PCI strong in mobility" or "PCI for training."



Corporate governance

Short-termism is an issue seen in the business execution aspect of the Board of Directors.

We believe that corporate governance is a mechanism for generating sound earnings on a long-term basis. The function of the Board of Directors is to oversee the execution of management. From my point of view, the challenge on the execution side of our company is that management is taking the short view, and while we have made improvements through discussions at the Sustainability Committee since 2022 and the formulation of this new medium-term management plan, I believe there is still work to be done as an organization, including the spread of this concept throughout the group companies. From a long-term perspective, we will practice management that actively invests in employee training and research and development without fearing a short-term plateau in performance.

A completely new system for supervision

In terms of supervision, as of April 2022, when I became President, there was an issue of the tenure of the independent outside directors becoming longer. In this regard, three of the four outside directors resigned in December 2022, and four new outside directors were appointed to create a completely new structure. The diversity of the Board of Directors has been strengthened with the appointment of outside directors with diverse backgrounds. It is also important for the growth of a company that outside elements enter the company and cause fundamental changes to occur. I hope that this will stimulate discussion about whether management strategies based on common sense within the company are different from the vector and speed of change in the world, or whether they are irrational in the eyes of the public.

We want to keep a company young.

In considering a succession plan, I believe it is important to have an outside eye. For myself as President of the

holding company and the presidents of group companies, it is necessary to objectively look at the desirable human resources from an outside perspective, and if there are no suitable candidates within the company, it may be necessary to invite someone from the outside. However, hiring young people is more important than inviting people from outside. As is the case with many Japanese companies, our group still has an old structure, for example, a seniority-based personnel system. In today's rapidly changing external business environment, such a seniority-based organization and thinking do not allow for flexible management. We must break away from or break through this situation. We would like to continue to be a youthful company, selecting directors and executives based on their abilities from a young age and transforming the entire group into a youthful one.

In terms of nurturing young people, it is also necessary to give them experience in top management at a young age. It is very important to provide an experience as a president of a company, even if it is a small company. They will see not only the business, but also all aspects of management, which will give them a sense of the numbers that are important for running a company. We must always be aware of and hone those senses. I hope that from a young age, they will cultivate the ability to understand not only the numbers such as sales performance in business units, but also the relationship of those numbers to financial strategies and management accounting from a company-wide perspective. In particular, we want them to develop the ability to read balance sheets. It is important to always think about matters with an awareness of issues such as, "Why is the inventory of this product increasing," "Is the level of accounts receivable too large," and "What is the reason for the increase or decrease in cash and deposits?" I am constantly telling people about the importance of asset efficiency. Management must be responsible for improving capital efficiency, but I want each section to think carefully about improving asset efficiency.

To all readers of this integrated report

I would like to express my deepest gratitude to all of you who are now reading our first integrated report. This integrated report is a condensed version of the management of the PCI Group. I would be very pleased if anyone interested in our group after reading this report could contact the investor relations department of the PCI Holdings (E-mail: ir@pci-h.co.jp). In addition to myself as President, the director in charge of finance, the director in charge of planning, the independent outside director, and the person in charge of investor relations, we will select an appropriate person in charge depending on the nature of your interest to engage in a proactive dialogue with our stakeholders. Through constructive dialogue with investors and other external stakeholders, we will strive to provide a useful information for everyone.

Also, all employees who are internal stakeholders of the PCI Group are requested to read this report from end to end. This report outlines the values that the PCI Group cherishes, the ideal image we are striving to achieve and our plan to realize it, our sustainability-oriented management, and our approach and specific measures for human resource development, which is important to all of you. This is your bible. We, the management team, are committed to deepening our dialogue not only with external stakeholders, but also with our internal stakeholders, our employees. We will share our values and strategies with you and link them to the rapid growth of the PCI Group, which is now in its second founding period. Let's work together to create value to fulfill the social mission of the PCI Group.



Interview with the chairperson



Toyomi Amano,
Representative Director and Chairperson

Looking back at the inauguration of our business

In 2025, we will celebrate the 20th anniversary of our founding. In order to give our stakeholders a deeper understanding of our company, I would like to look back at our growth trajectory since our founding.

It was in April 2005 that I established M&S Co., Ltd., the predecessor of our company. At that time, the damage from the collapse of the IT bubble was still lingering. However, as I had been in the information systems industry for many years, I considered that the potential of the development and spread of IT was extremely high, and I had no concerns about starting a business.

When I founded the company, I was thinking of how I should make a breakthrough in the information system industry. At that time, the Japanese economy was considered to be going through a “lost decade.” IT is a cutting-edge technology that can potentially revitalize the Japanese economy and is an industrial field where new value can be created. However, the structure of the information system industry was precisely the same as the “layered pyramid structure” in the construction industry, in which major companies acted as prime contractors, subcontracted the work they received and the

subcontractors passed the orders on to sub-sub contractors. Our group has high technical capabilities, and I have a wide network in the information system industry. However, I was frustrated because even though we would receive inquiries from customers for work, we could not get a direct contract because of the lack of track record and credibility as a company.

In Japan, computer-related companies emerged after around the 1964 Tokyo Olympics, and in the 1970s, companies sprang up like mushrooms. There are many small companies with excellent technological capabilities among the companies that were founded around that time. However, one of the reasons why such companies could not grow into large companies was this layered pyramid structure of subcontracting. This is strange. If such companies work and grow, the information system industry would be revitalized, and IT would positively impact various industries. So, I thought that small companies with excellent technology should unite, acquire strength and trust so as not to be outdone by large companies, and we spread our technology in society. Fortunately, there were many IT company managers who shared the same idea, and I was blessed with investors such as venture capitalists who agreed with my concept. So, we were able to start and expand our business successfully. After that, there were big setbacks, such as the bankruptcy of Lehman Brothers and the Great East Japan Earthquake. However, I believe we have successfully realized our concept at the time of the founding as a whole.

Thoughts behind the corporate name and corporate ethos

PCI represents the conditions for being an innovator.

Three years after its founding, our corporate name was changed to “PCI Holdings.” As the business started to get on track, we decided to once again reflect on our future vision and values with the top management of each group company at the time. The corporate name of “PCI” represents our commitment to innovation and the requirements for being an innovator, which is to have the spirit to continue to “Positively” “Change” and “Innovate.” We decided to use the acronym “PCI” as a shared slogan. These words have something in common with Darwin’s evolutionary theory. Namely, the big and strong are not the

ones who will survive, but the ones that adapt to the environmental changes of the time should survive. It turned out to be a great slogan for our company, which was still a small start-up company at the time.

The values we hold are summed up in our corporate ethos: “We pursue the happiness of all of our employees and contribute to the development of society through the improvement in customer satisfaction.” We are particular about using the words “all of our employees.” The assets of an IT company like our group are only “employee.” We thought that the word “employees” alone was insufficient to express the idea that employees are assets (human resources). Therefore, we deliberately use the expression “all of our employees.” Depending on whether or not this “all” is used, the intension of the statement become more deep.

A company is the foundation on which each and every employee lives and is a place where they achieve self-realization. If the company is not solid and stable, we will be unable to develop our most important assets, that is, human resources. Therefore, we will significantly increase investment in human resource education under our next medium-term management plan “PCI-VISION 2026.” In addition, in order for the company, to be solid, it is necessary for each and every employee to contribute to the company fully. In order for a company to grow, it must be pleased by its customers and be needed by society. Therefore, contribution to society is also important. Based on this idea, we created our corporate ethos. Recently, we often hear terms such as human capital management, well-being, and stakeholder capitalism. These concepts have been rooted in our group since its founding.

Why did you adopt the holding structure?

Aiming for federal integration

As the corporate name suggests, our company is a pure holding company, and under this umbrella, group companies conduct business. We have continued applying this method since our founding, but at that time, I think it was rare for a business entity of the size of our group to take the form of a holding company. Certainly, a pure holding company has some inefficiencies that might make business operation seem futile at times. So, why did we

adopt the holding company? This is because we wanted to take advantage of the merits of business integration while minimizing the demerits.

In order for small companies to unite and become a powerful IT company group, strong ties are necessary. After all, blood is thicker than water. So, we thought we should have a business integration with firm capital ties. If a merger is carried out hastily, there are many cases in which multiple factions, such as the “former XX company faction,” are formed within a single company. And the employees of the minority faction will gradually quit the company. Thus, human resources, which are the assets of the group, will decrease. Then, even if there is a merger, there is a risk that 1 + 1 will not become 2, but will become 1.8 or 1.5, or, before even achieving synergy, everyone gets tired of faction warfare.

In order to avoid such a situation, under the basic policy of “federal integration,” we have entrusted the overall management of the subsidiary to the president of the subsidiary when conducting business integration. Of course, it is also important to manage the business portfolio and pursue synergies. To date, our group has also merged subsidiaries with similar businesses and consolidated business portfolios through spinouts. However, measures such as restructuring the group have been carried out after some time has passed since the business integration, at the stage where we have known each other’s faces and felt comfortable with each other. At the present stage, where the PCI Group has shared a sense of unity, we believe it is necessary to reduce duplication of costs among group companies, standardize systems, and provide solutions to customers through collaboration among group companies. This is the evolution through the “multiplicative” business integration that President Yokoyama points out.



Past and future M&A strategies

M&A will remain one of the major drivers of our growth strategy.

We believe that our growth strategy centered on M&A has produced good results so far. The first M&A that our company executed after going public was for Syswave Corp. (currently PRIVATECH Inc.), whose main business is semiconductor design and testing. At that time, we were asked why a company focusing on software development would add a semiconductor-related company with operating profit of tens of millions of yen to the group. We conducted this M&A in anticipation of its compatibility with our group's business, which specializes in embedded software development. After that, Syswave Corp. merged with Vitec System Engineering Inc. (currently PRIVATECH Inc.), which also operated a semiconductor-related business and entered our group through M&A. The combined operating income of the two companies just before the M&A was about 44 million yen, but in FY9/22, it increased 5.5 times to 242 million yen.

The consolidated net revenue of the entire group in FY9/22 were 25.1 billion yen, which is more than tripled since the listing in 2015. However, my personal opinion is that it is difficult to show a presence in the information system industry unless the revenue is at least between 50 billion yen to 100 billion yen. If we are aiming for 50 billion yen or 100 billion yen, we will not be able to achieve it by simply expanding the business of existing subsidiaries linearly. Even IT companies, which are in the growing field, rarely have a business that can achieve organic growth in the double digits. Therefore, our group will continue to make M&A and capital/business alliances one of the major drivers of our growth strategy. Among the IT companies that were founded in the 1970s, there are many companies that are currently facing the issue of a lack of successors. If there is a company that shares our vision and values, we can think of a capital tie-up and work together.

One of the purposes of collaborating with other companies is to strengthen our sales capabilities. Our group has high technological development capabilities. However, our ability to sell products and services developed with that high technology is unfortunately still weak. For example, there is a shortage of human resources

with the know-how to "horizontally deploy" a product or service developed with a certain customer to other customers to expand sales and popularize it. In addition to developing such human resources, we have considered forming partnership with companies with such expertise. One example is the capital and business alliance with the Restar Holdings Group (hereinafter referred to as "Restar," security code: 3156). Restar is a corporate group centered on top-class domestic semiconductor trading companies, and its sales capabilities are extremely strong. On the other hand, our group has the abundant engineering capabilities that Restar requires to improve its added value. So, we have a relationship of coexistence and co-prosperity.



Future growth potential

We want to nurture "leading-edge businesses" and "edgy human resources."

In April 2022, Mr. Yokoyama assumed the position of Representative Director and President of our company. I believe that our group has entered the "second founding period." "PCI-VISION 2026" summarizes the growth strategy for this "second founding period."

Our group lacks "something edgy." Our performance has grown steadily since going public. However, it is too steady to have an image of high growth. From the perspective of stakeholders, it may look like a plain IT company without anything "edgy." In the current medium-term management plan "PCI-VISION 2023," which will end in FY9/23, we have expressed what makes PCI different from other companies using the term "one-stop solution company." However, we have not been able to fully communicate to our

stakeholders how our assets, such as human resources and technology, and our business portfolio are linked to our competitive advantage. I believe this is one reason why the stock price continues to be sluggish compared to our performance. One of the purposes of this integrated report is to explain our business model in an easy-to-understand manner to our stakeholders, including investors.

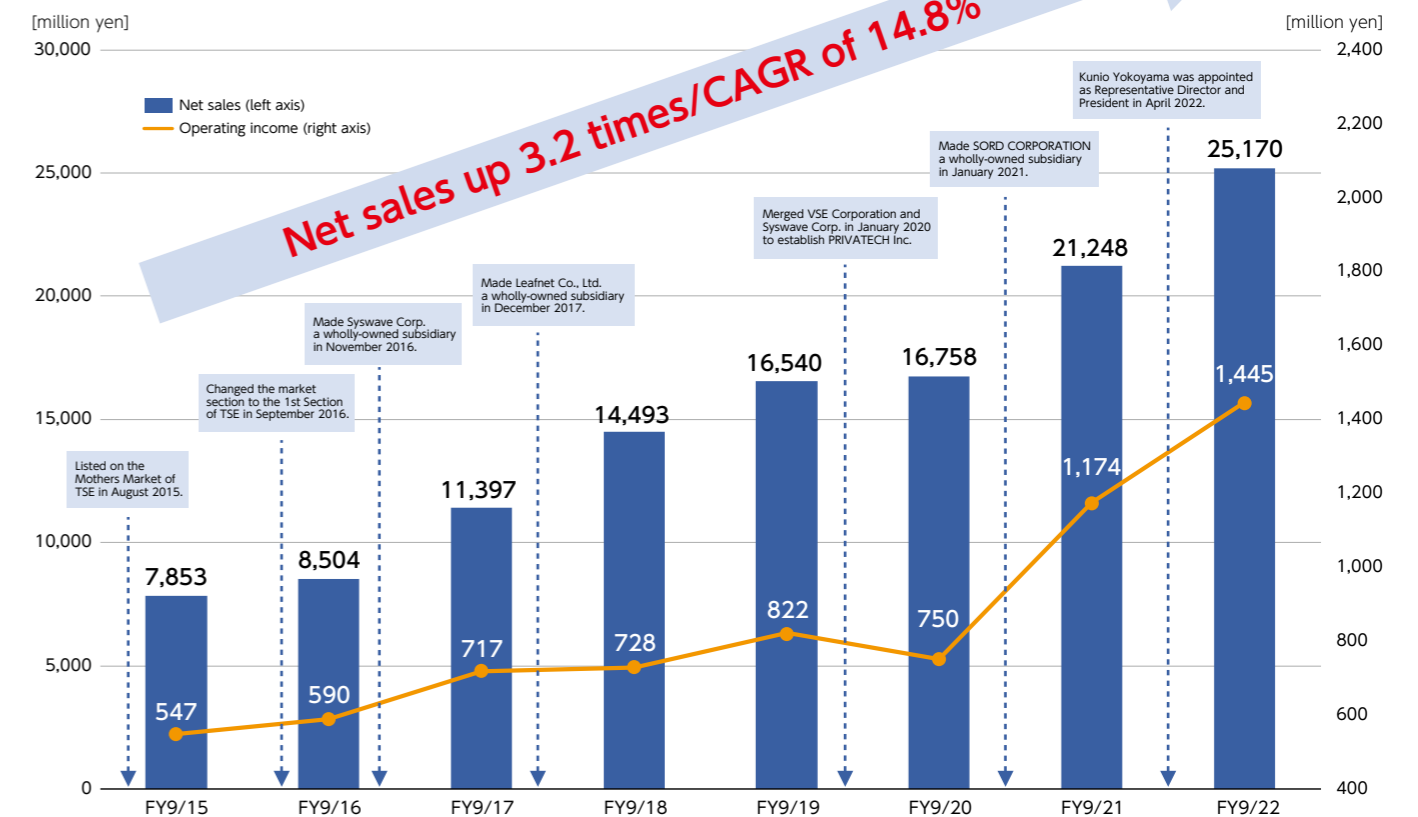
For growth, we also need "edgy human resources." Every successful company has some key personnel, who find businesses and solutions with a completely different way of thinking than ordinary people and endeavor to realize them. We sometimes need people who come up with outlandish and eccentric ideas. We certainly have excellent employees in our group. However, when it comes to "edgy human resources," it is difficult to find them. The most important factor in achieving our group's growth potential is our human resources, which are our assets. I believe that creating a workplace where employees with diverse backgrounds can freely exchange opinions and inspire each other will lead to cultivating "edgy human resources."

From a slightly long-term perspective, considering the

2030s, the growth potential exists overseas. Japan's information system industry will continue to grow for the time being. The digital transformation of Japanese companies has just started in earnest. Against the backdrop of changes in the security situation and the entrenched depreciation of the yen, we believe that the reshoring to Japan will progress in the manufacturing industry, including our main customers. We see this as a business opportunity for us. But what happens after that? After all, in order to continue growing, we will have to think about overseas expansion. It is necessary to think about such matters and take on new endeavors.

In order for our group to continue growing, we must not be afraid of change. We need to continue to "Positively" "Change" and "Innovate" to create value.

We would like to ask our investors and other stakeholders for your continued support and encouragement in creating corporate value for our group.



Long-term vision “PCI X-formation 2032 (PX 2032)”

PX 2032 Vision Statement

We aim to continuously explore the possibilities of IT, contribute to the realization of a secure, safe, and prosperous society (= a sustainable society), and be a company that constantly adapts to change and seeks growth.

The mission of our group is to keep practicing our corporate ethos. By closely addressing the genuine needs of our customers to create and provide high added value, aiming to achieve the physical, mental, and social well-being of all of our employees and fulfilling our social responsibilities, we believe that we can achieve the sustainable growth of our group.

Corporate ethos

We pursue the happiness of all of our employees¹ and contribute to the development of society² through the improvement in customer satisfaction³

- *1. Achieving well-being**
- *2. Fulfilling our social responsibilities**
- *3. Closely addressing the genuine needs of our customers**

As stated in “Message from the president” (p. 8), individuals or companies cannot exist without a connection to society, businesses exist because society need them, and we believe that they can continue to exist and grow by fulfilling their social responsibilities, and conversely, neglecting these responsibilities can lead to decline. The essence of fulfilling social responsibilities lies in addressing the evident and underlying social issues of the time from one’s perspective and expertise and contributing to a social development. The ultimate purpose of a company’s existence is to fulfill its duty by resolving these issues.

Our group is a corporate group composed of IT providers. Our corporate activities adhere to our universal mission based on our corporate ethos of solving various social issues through corporate clients by deeply understanding the genuine needs of our customers and leveraging our IT skills and know-how. Furthermore, in response to the demand emerging from the changes in domestic and international markets, the shift of consumer preferences, and the evolution and diversification of IT, our willingness to contribute to the realization of a secure, safe and prosperous society by continuing to “Positively” “Change” and “Innovate” was incorporated into our vision statement.

“PCI X-formation 2032” (abbreviated as PX 2032) is the first “long-term vision” formulated by our group, recognizing that we must develop strategies with a vision looking ahead at least 10 years to continue to exist into the future under the rapidly-changing domestic and international market environments. In “PX 2032,” our company has defined our “ideal state” and “necessary stance” to foster new value in society and then realize a sustainable society, under the principle of continuing to “Positively” “Change” and “Innovate” by attending to and co-creating things with customers while involving all of our employees.

As we will move toward the year 2032, the state of society and the global environment will undergo major changes. The roadmap for our group to realize a secure, safe, and prosperous society with the consolidated power of our IT is PX 2032.



Society 10 years from now envisioned by our group

When discussing PX 2032, it is essential to envision the state of society around the year 2032. From the perspective of IT, which is the arena of our corporate activities, we assume that the evolution and sophistication of a variety of IT, including AI, and its practical utilization and diffusion in the real world are progressing. Specifically, we assume a society in line with Japan's government vision "Society 5.0," which provides the right amount of necessary goods and services to the right people at the right time and responds finely to various social needs. In this envisioned society of 2032, the integration of cyber and physical spaces based on technologies like Metaverse and Web 3.0 may be deeply rooted in various aspects of life. We expect that diversity and inclusivity will be diffused, overcoming various constraints such as age, gender, region, and language and reducing social disparities.

Let's consider the field of mobility, which is undergoing a once-in-a-century transformation. Firstly, with the advancement of technologies related to self-driving, "age" may cease to be a constraint for driving. Safe driving could be achieved not only for elderly individuals, but for a wide range of ages and genders. Secondly, differences arising from varying traffic regulations by country and the "familiarity" with geographical conditions in different regions might diminish. Furthermore, the integration of language models like ChatGPT into systems such as car navigation ones could greatly reduce language barriers. Through these IT advancements, various disparities associated with the act of "driving" could be minimized or eliminated. However, the proposition that "making movement easier for everyone" is totally different from the idea of "the movement of people." To reduce disparities between regions and stimulate movement between them, it is necessary to motivate and encourage people to travel. This social challenge cannot be resolved solely through IT; it requires comprehensive integration (ecosystem development) involving various technological and policy elements. I imagine that a society where this solution is realized will be the mobility society of 2032.

The realization of a future society, exemplified by the mobility sector, will occur in other fields such as healthcare, the primary industry, finance, and manufacturing in the same way. While the degree of realization may vary among industries, I believe we are approaching an "era" where the gap between the future depicted in science fiction novels and the actual society becomes incredibly thin.

The form beyond growth

By the year 2032, our group hopes to become a corporate group that embodies the previously mentioned vision statement. However, it is not practical to achieve this in every industry that makes up society. We aim to become a prominent company by selecting and focusing on industry sectors where we can leverage our "distinctive strengths."

Firstly, we will focus on the assembly-based manufacturing industry, particularly in the mobility sector. When it comes to "automobiles," IT will become an essential component in both in-vehicle and external systems. Achieving "driving, stopping, and turning" in a "safe and comfortable" manner requires control technologies based on IT. Furthermore, when perceiving a car as a "mobile living space," it is necessary to provide a comfortable environment for both entertainment and work. This requires communication technology-centred IT and IT to realize a user interface (UI) and user experience (UX). Mature IT is necessary for ensuring safety, while advanced IT is needed for pursuing comfort. Our group aims to offer these technologies in a balanced manner to our customers. Hearing praises like "Well done PCI. That's exquisite!" will be the embodiment of our group's value. We, the PCI Group, have a dream of seeing a world where all vehicles produced in or after 2032 will bear the inscription "DDD (Designed/Developed/Deployed) by PCI."

The same applies to the healthcare and smart factory sectors. In these fields, IT revolves around the balance between data-centric collection and processing, that is, a balance between edge computing and cloud computing. Achieving this delicate balance is what PCI aims for.

Additionally, our group possesses hardware technology, including LSI design, within our IT capabilities. When envisioning IT implementations in future industrial sectors, the balance in software on-chip is of equal importance. Reducing the subtle trade-offs between flexibility, availability, and high-speed processing will contribute significantly to our group's value. We hope to choose industrial sectors where we can convert and transform these "unique strengths" into social contributions.

We envision a "comprehensive technology consulting company" that will support the foundation of society with IT in 2032 in a unique and distinctive fashion.

Sustainability-oriented management

In August 2022, Ito Report 3.0 (SX version of Ito Report) was released by the Ministry of Economy, Trade and Industry. Ito Report 3.0 points out that sustainability-related issues are not merely risks that companies must deal with, but a fundamental element of management for the creation of long-term sustainable corporate value. Our group deeply recognizes that addressing sustainability-related issues is a fundamental element of management, and we will continue to actively and continuously implement initiatives to resolve sustainability-related issues, aiming to realize a sustainable society and enhance our corporate value over the medium to long term.

Basic sustainability policy

Our group positions our “Corporate ethos” (p. 4) and “Course of conduct” as the basic policies for sustainability-oriented management.

Course of Conduct of the PCI Group

1. Achieving stable business growth
2. Providing solutions tailored to users
3. Aiming to become a company supported by users
4. Positively (P) change (C) and innovate (I)
5. Striving to be a company that satisfies all stakeholders

Sustainability promotion framework

In July 2022, our company established a Sustainability Committee, which serves as an advisory body to the Board of Directors, with the Representative Director and President as its Chairperson.

(Role of the Sustainability Committee)

This committee is responsible for formulating the basic policies on sustainability, identifying key issues (material issues), setting goals and monitoring progress based on these key issues, promoting company-wide education and awareness activities related to sustainability, and deliberating on matters related to information disclosure. The committee also provides regular reports and recommendations to the Board of Directors. Additionally, it contributes to the risk management of our group by providing reports and advice regarding how to identify, analyze, evaluate, reduce or avoid risks and other necessary measures.

(Composition of the Sustainability Committee)

The committee is chaired by the Representative Director and President of our company, and the director in charge of Administration Department and the director in charge of Corporate Planning Department serve as vice-chairpersons. The committee also includes the representative directors of respective group companies (executive officers of our company) and heads of relevant sections within our company as members, ensuring alignment with business operations. Furthermore, to promote initiatives for sustainability, a working group consisting of executives and employees from group companies, nominated by the committee chairperson, has been established. This structure promotes collaborative efforts across the entire group to advance sustainability activities.

Material issues

Our group has been committed to promoting sustainability-oriented management. In February 2023, we strengthened our response to sustainability-related issues by identifying six material issues (key issues). For more details, please refer to the section on “Material issues” (p. 58) and the “Process for identifying material issues” (p. 59).

Material issues (Key issues)	Key perspectives (ESG)
(1) Achieving a secure, safe and prosperous society through the pursuit of efforts to positively change and innovate	Business aspect (technology)
(2) Providing truly beneficial solutions to our customers	Business aspect (customers)
(3) Contributing to the creation of a sustainable global environment	Environment (E)
(4) Developing human resources who find joy in the development of society, business growth, and self-realization	Society (S) and human capital
(5) Fostering a corporate culture that values diversity, fairness, and inclusion	Society (S) and the entire society
(6) Pursuing fair and just corporate activities that can fulfill accountability	Governance (G)

Message from the financial manager

Establishment of a business administration system to support sustainability-oriented management

1. Financial strategy in the new medium-term management plan “PCI-VISION 2026”

In November 2020, we announced a three-year plan “PCI-VISION 2023” with the first year being FY9/21. During this period, we focused on expanding our system engineering service, which is the mainstay, creating new proprietary products/solutions/services, and pursuing business growth through alliances and M&A activities. As a result, in FY9/22, we achieved record-high net sales of 25.1 billion yen and operating income of 1.4 billion yen. For FY9/23, which is the final fiscal year, we have set a plan to achieve net sales of 30 billion yen and operating income of 1.8 billion yen.

While we have steadily expanded our business scale, our operating income margin and ROE have remained relatively flat, indicating substantial room for improvement in return on capital and capital efficiency.

The new medium-term management plan “PCI-VISION 2026” is positioned as the start of our “second founding period” in which we will pursue sustainability-oriented management through management transformation and practice with a view to our ideal state in 10 years.

To support this transformation, we aim to establish a management structure that seeks the “quality” of profits by structuring a framework that emphasizes “Expansion of revenue scale,” “Improvement of return on capital,” and “Enhancement of the financial structure” as pillars of our financial strategy.

Specifically, in addition to ROE, we are introducing a new indicator, ROIC, to swiftly detect the risks in each business from the viewpoint of return on capital, continue current businesses, and proactively and flexibly engage in reorganization and restructuring of our business portfolio. This approach fosters rejuvenation and enables continuous generation of cash, which serves as the funds for growth investments.



Kazuya Sugizono
Director and General Manager of Administration Division

We will prioritize allocating generated cash toward growth investments that promise a return on capital over the medium to long term. Simultaneously, we are committed to ensuring stable shareholder returns.

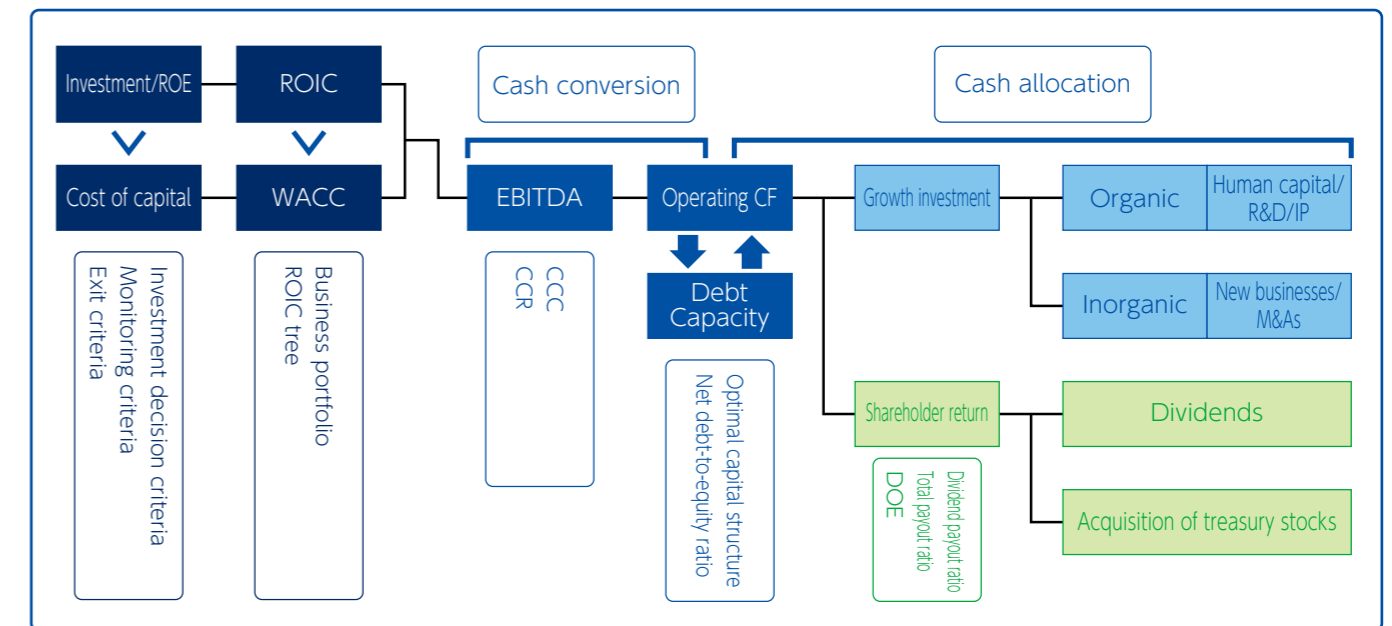
Our active investment approach will extend to intangible assets, such as intellectual property and human assets, both of which are pivotal in creating corporate value within our group.

We specifically recognize investment in “human capital (human assets)” as a key issue (material issue) necessary for sustainable growth. Through the group-wide activities of the working group established to promote human capital management, we will promote investment measures to ensure continued growth along with our group employees.

However, since the effects of such investments may take time to materialize, we will enhance the visibility of non-financial information, including investment policies and progress status, striving to ensure the understanding of our stakeholders by providing leading indicators.

Furthermore, to ensure swift and accurate execution of these management decisions, we will devote efforts to advancing our DX strategy, utilizing data across our group. This will also hold a significant position in visualizing the information necessary for dialogue with all stakeholders.

Financial Framework



2. Pursuit of return on capital

Our group has used net sales, operating income, operating income margin, ROE and dividend payout ratio as external management indicators to guide our group’s management. However, in the first year of our new medium-term management plan, we will add a new indicator, ROIC.

Through the transition to a post-COVID era, the revival of economic activities is expected. Nevertheless, it is important to acknowledge that geopolitical risks, such as the power struggle between the United States and China, Russia’s invasion of Ukraine, and tensions between China and Taiwan, which affect supply chains and environmental issues, are still at a significant level. Furthermore, there remain uncertainties due to a lack of workforce following a declining birthrate and aging population and the diversification of workstyles.

In light of this intricate business environment, we firmly believe that achieving sustainable growth requires a focus on enhancing “quality” aspects such as profitability and capital efficiency and the appropriate management of our business portfolio.

In practical terms, we will evaluate business from the aspects of ROIC, which is well-suited for assessing profitability and capital efficiency of each business, and growth potential, and aim to optimize our portfolio by clarifying the priorities of business investments.

We recognize the significance of enhancing the value-added ratio in relation to the invested capital for ROIC improvement.

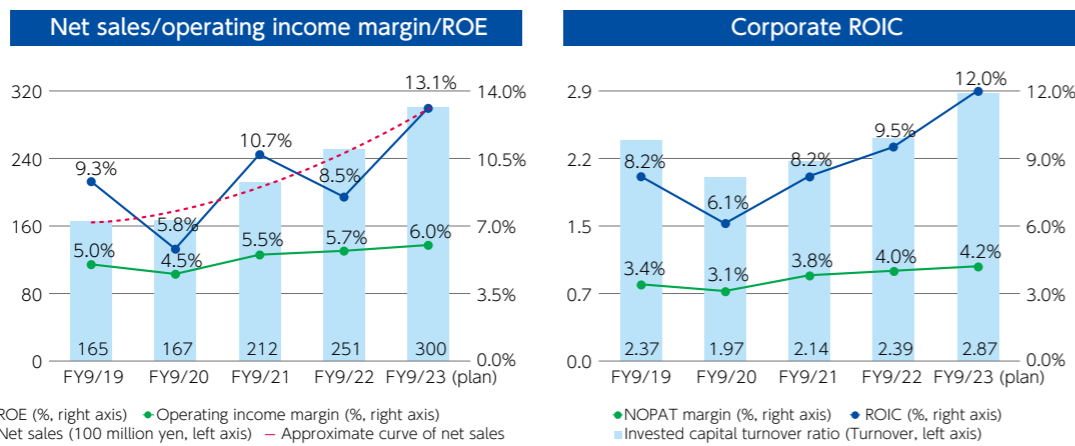
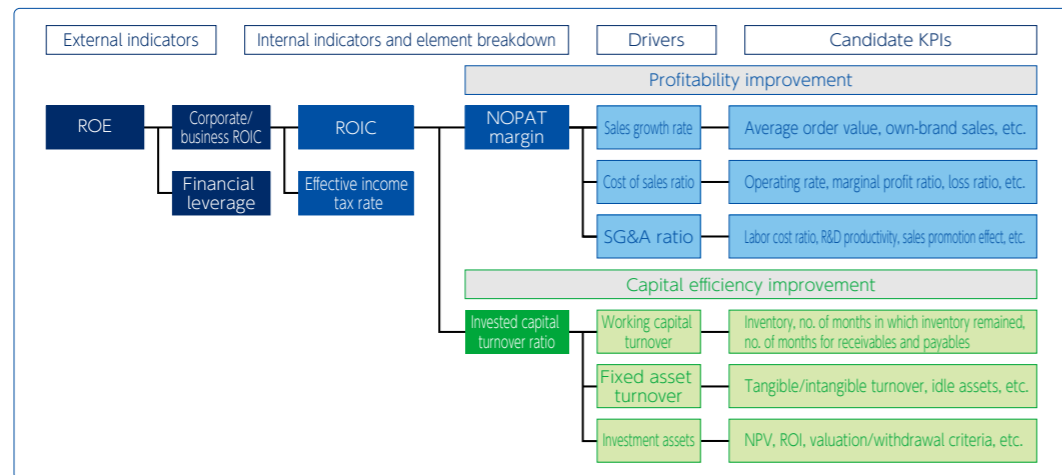
We will leverage the ROIC tree, which breaks down these components into indicators that can be considered at the operational level, and work to enhance ROIC across the entire organization. Then, we will aim to achieve an ROIC of 15% or higher in the final year of the new medium-term management plan.

Furthermore, to swiftly implement improvement measures for businesses and make withdrawal decisions, we will establish new investment criteria that evaluate capital costs, such as WACC (Weighted Average Cost of Capital), and the recoverability of invested capital. Through regular monitoring, we will swiftly identify potential risks and effectively utilize limited resources.

ROIC calculation formulas:

- Corporate ROIC: $\text{NOPAT}^* \div \text{Invested capital (interest-bearing liabilities + net assets)}$
- Business segment ROIC: $\text{NOPAT}^* \text{ in each segment} \div \text{Invested capital in each segment (working capital + fixed assets)}$
- *NOPAT: $\text{Net Operating Profit After Tax} = \text{Operating profit} \times (1 - \text{effective tax rate})$

Diagram ROIC tree



Indicators in the medium-term management plan

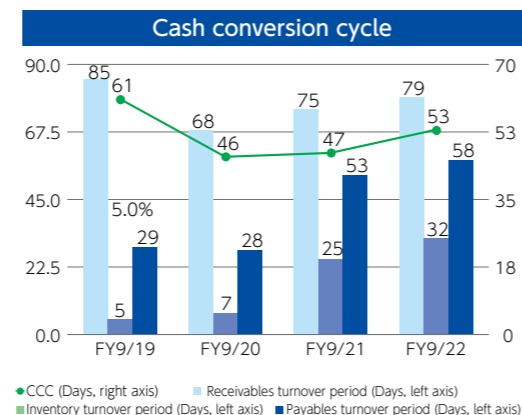
	PCI-VISION2023			PCI-VISION2026	
	Results for FY9/21	Results for FY9/22	Plan for FY9/23	Plan for FY9/26	Growth rate
ROE	10.7%	8.5%	12% or higher	15% or higher	Up 3 points or more
ROIC	8.2%	9.5%	10% or higher	15% or higher	Up 5 points or more

3.Strengthening of cash generation capacity

To achieve substantial improvement in corporate value, it is essential to consider not only accounting-based returns such as ROIC, but also cash-based returns.

We will enhance our cash generation capacity by improving the efficiency of the balance sheet through such measures as curtailing working capital, liquidating non-business assets, and periodically reevaluating securities we hold, in addition to profit growth through optimization of the business portfolio.

Particularly, as for working capital, we consider the reduction of CCC (Cash Conversion Cycle) to be of paramount importance.



The past three periods of CCC have shown a shortening trend. However, during FY9/22, special factors, such as supply constraints, depreciation of the yen, and other factors caused by the impact of the COVID-19 pandemic and Russia's invasion of Ukraine, led to an increase in payables and inventory turnover periods, resulting in a prolonged CCC.

4.Cash allocation: Investment for sustainable growth

Cash generated from operating activities will be allocated to both investments for growth (organic and inorganic growth) and shareholder returns while considering the debt capacity.

Specifically, we will prioritize allocating funds to investments in human capital, products, research and development, etc. for organic growth. For inorganic growth investments, such as M&A, which involve higher uncertainty, we will consider factors such as alignment with business strategy, recoverability, and synergy effects to determine the allocation.

To ensure financial discipline from a financial perspective, we will set a debt capacity based on analogous credit

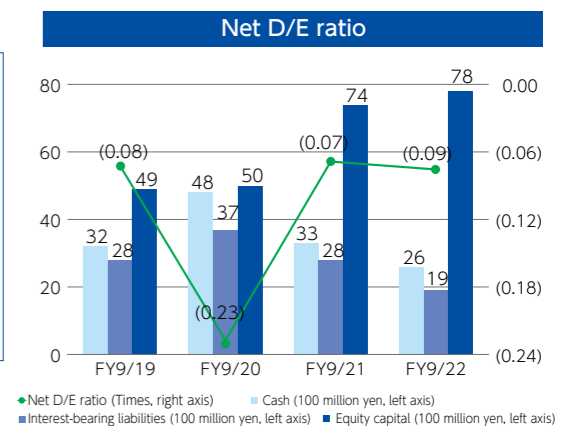
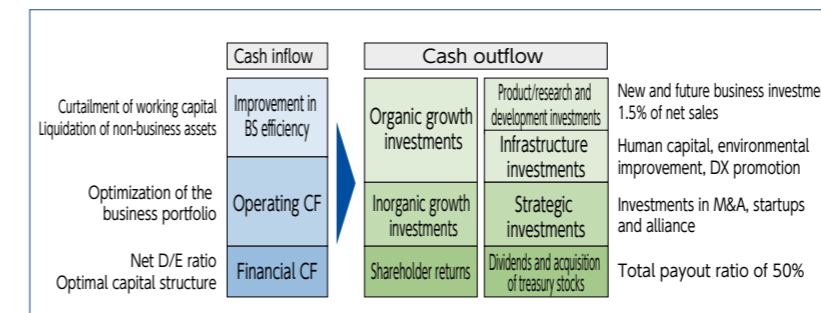
Moving forward, we think that a high level of uncertainty in the business environment will remain, so we place significant importance on enhancing resilience and flexibility.

We will undertake initiatives to shorten our CCC by closely managing our supply chain, diversifying procurement sources, and optimizing inventory levels.

ratings for bonds and control net D/E ratio within a certain level (within 0.3). This approach will safeguard financial security while pursuing the optimal capital structure which pays attention to interest-bearing liabilities and shareholder equity.

For investments in human capital, products, research and development, etc. for organic growth, we will prioritize allocating cash generated from operating activities. Additionally, for inorganic growth investments, including M&A, alliance investments, and startup investments, we will allocate funds in conjunction with interest-bearing liabilities.

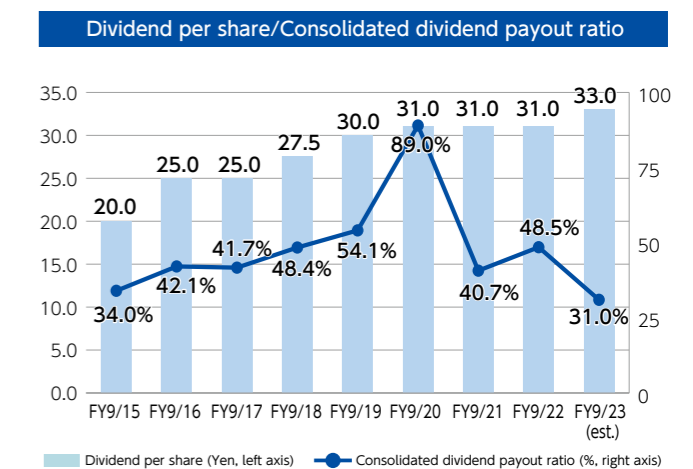
Cash allocation



5.Shareholder returns

Since our listing in 2015, we have consistently maintained or increased dividends. In the final year of the current medium-term management plan, that is, FY9/23, we plan to pay an annual dividend of 33 yen per share.

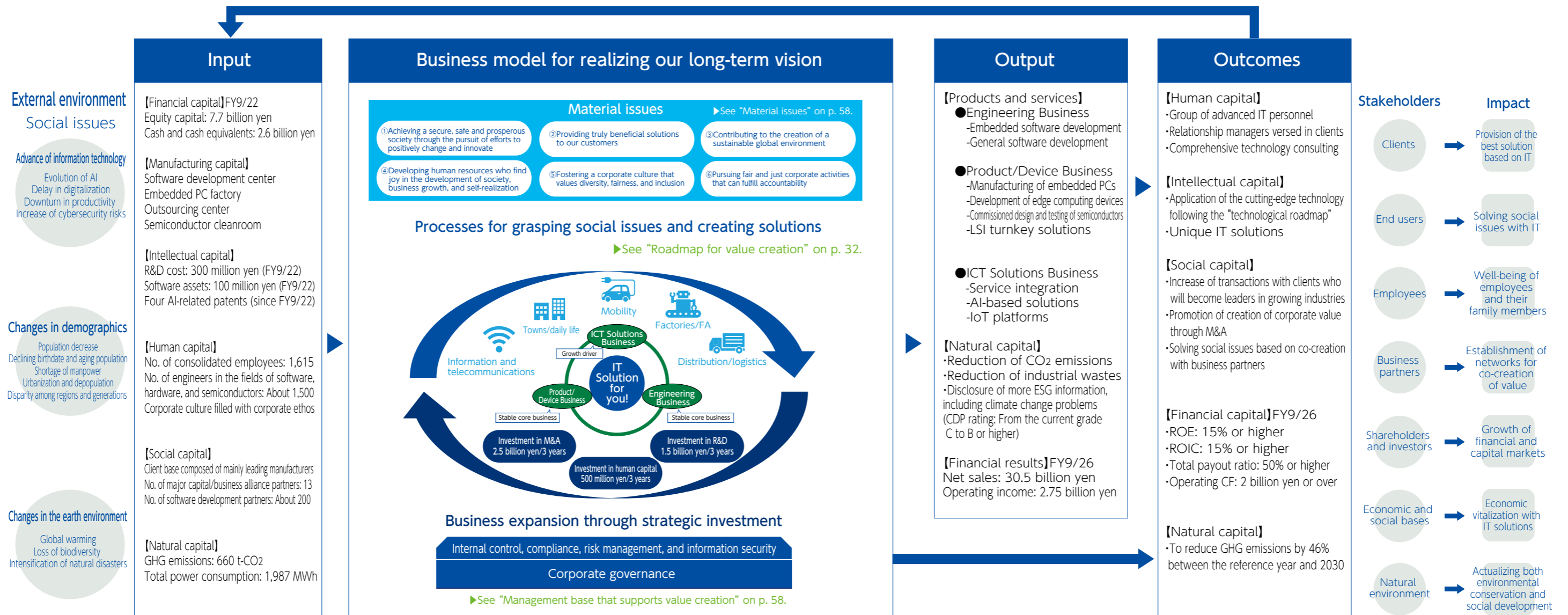
For the period of the new medium-term management plan, our policy is to realize shareholder returns with an aim to achieving a total payout ratio of 50% or higher, with a combination of stable and continuous dividends and flexible acquisition of treasury stocks.



Value creation process

▶See "Basic policy for value creation" on p. 4 and later.

Corporate ethos ▶(See "Corporate ethos" on p. 4.)	We pursue the happiness of all of our employees and contribute to the development of society through the improvement in customer satisfaction.		
Long-term vision ▶(See Long-term vision" on p. 20.)	<p>[Vision statement] We aim to continuously explore the possibilities of IT, contribute to the realization of a secure, safe, and prosperous society (= a sustainable society), and be a company that constantly adapts to change and seeks growth. [Ideal state] Establishment of "a leading brand in a specific field" Comprehensive technology consulting company</p>	<p>Value created</p> <ul style="list-style-type: none"> To deliver high-quality IT services and products to every corner of the world To expand the new IT domain by addressing genuine needs To work on environment-conscious business activities and utilization of IT 	<p>Society we aim to realize</p> <ul style="list-style-type: none"> A resilient, flexible, safe society A society where everyone can lead an anxiety-free life A sustainable, affluent society



II. Roadmap for value creation

Review of the medium-term management plan “PCI-VISION 2023”

Our company formulated the medium-term management plan “PCI-VISION 2023” in November 2020, and has engaged in the five priority measures shown in the table below for sustainable growth. This section summarizes the past 3 years.

The five priority measures are roughly classified into (1) stabilization of our foundation, (2) and (3) diversification of our business portfolio, (4) investment in inorganic growth, and (5) investment in human resources.

For the stabilization of our foundation, we have striven to select and concentrate on markets based on the “characteristics” of our group and cement and deepen relationships with clients. As indicated in the table of the variations in financial figures shown below, sales and profit have grown steadily, further stabilizing our management and business bases. Regarding the diversification of our business portfolio, we proceeded with R&D based on AI, especially image processing technologies, and implemented developed technologies for clients’ businesses. We are still a step away from “commercial delivery,” but we think that we have taken a concrete step. On the other hand, the performance of the cybersecurity business did not reach the initial goal, as we did not respond to market trends, customer needs, or the like to a sufficient degree. In the next medium-term management plan, we will thoroughly discuss how to handle this business. Regarding the investment in inorganic growth, we have conducted investments for growth with various methods, including the cementing of alliances, capital injection, and acquisition of companies as subsidiaries. However, it takes some time to see the effects of these investments. We will make efforts so that investments will pay off soon. Regarding the investment in human resources, we continue trial and error amid the “shortage of manpower,” which is attracting public attention. For our group, “human resources determine the performance of business.” During the 3-year COVID-19 pandemic, we have reformed workstyles, recruited a select few people, and reskilled all employees.

■ Priority measures in the medium-term management plan “PCI-VISION 2023” and evaluation of them

«Priority measures»	«Major items»	Evaluation
① To expand the scale of the system engineering service business while improving its quality	<ul style="list-style-type: none"> ● Sales grew, as we further concentrated on our core domains (mobility and technology for standard in-vehicle software). ● Deepened relationships with clients by enhancing account management. 	◎
② To create optimal brands, solutions, and services	<ul style="list-style-type: none"> ● Developed cutting-edge technologies, including AI, and created solutions (mainly collaborative development with users, based on the functions to detect objects and abnormalities by utilizing the image recognition technology). ● Actualized IoT solutions by combining edge technology and cloud computing. 	○
③ To promote cybersecurity-related business	<ul style="list-style-type: none"> ● Promoted the sales of AppGuard® for industrial devices. ● Enriched the lineup of security solutions. 	△
④ To cement the alliances with business partners and promote M&A actively	<ul style="list-style-type: none"> ● Enhanced the linkage with embedded PCs by acquiring SORD CORPORATION. ● Actively formed capital and business alliances. 	○
⑤ To strengthen our organizational structure and reform workstyles	<ul style="list-style-type: none"> ● Enhanced recruitment and education of personnel. ● Reformed workstyles according to the characteristics of group enterprises. 	○

■ Variations in financial figures

(million yen)

	Period of the medium-term management plan “PCI-VISION 2023”								
	FY9/20	FY9/21			FY9/22			FY9/23	
	Results	Forecast	Results	From FY9/20	Forecast	Results	From FY9/20	Forecast	From FY9/20
Net sales	16,758	21,200	21,248	Up26.8%	26,500	25,170	Up50.2%	30,000	Up79.0%
Operating income	750	950	1,174	Up56.5%	1,400	1,445	Up92.6%	1,800	Up139.9%
Operating income margin	4.5%	4.5%	5.5%	Up1.0point	5.3%	5.7%	Up1.2points	6.0%	Up1.5points
EBITDA	966	—	1,485	Up53.6%	—	1,835	Up89.8%	2,150	Up122.4%
EBITDA margin	5.8%	—	7.0%	Up1.2points	—	7.3%	Up1.5points	7.2%	Up1.4points
ROE	5.8%	—	10.7%	Up4.9points	—	8.5%	Up2.7points	12% or higher	Up6.2points

In “PCI-VISION 2023,” we first aimed to achieve consolidated net sales of 21 billion yen and consolidated operating income of 1.25 billion yen through organic growth in FY9/23, which is the final fiscal year of the medium-term management plan, but considering the fact that we acquired SORD CORPORATION as a consolidated subsidiary in January 2021, we revised the goals to consolidated net sales of 30 billion yen and consolidated operating income of 1.8 billion yen (operating income margin: 6%).

In the three years of this medium-term management plan, the business environment was extremely unstable, due to the spread and subsiding of COVID-19, the increase of geopolitical risks, including Russia’s invasion of Ukraine and the tension between China and Taiwan, and the resultant market turmoil inducing rapid changes in exchange rates and the skyrocketing of material prices. Our group implemented appropriate measures for coping with these risks, accurately responded to demand, carried out appropriate investments for growth, and arduously worked on the five priority measures. As a result, we achieve steady growth as shown in the table.

Gist of the next medium-term management plan “PCI-VISION 2026” (FY9/24 to FY9/26)

We have formulated the next medium-term management plan “PCI-VISION 2026” after reviewing the current medium-term management plan “PCI-VISION 2023” and considering our long-term vision “PX 2032.” Its gist is explained below.

■ Concept and basic policies

We recognize the three years of the next medium-term management plan as the second founding period for our company. Placing importance on “building the foundation” for further growth, we will proactively reform our management in order to elevate the “quality” of our revenues.

The four basic policies of the next medium-term management plan are outlined below.

1. Purpose-driven management

As public entities of society, enterprises continue to exist in order to contribute to solving social issues. While imagining what the world where we live will look like 10 years later, we shall establish a corporate foundation for providing IT which will realize a better society, where it is easier to live.

2. Shift to a highly profitable structure

While the PBR of our company is maintained at a level over 1.0, our capital efficiency is not sufficient. We need to improve our profitability in order to improve our capital efficiency and make proactive investments to build our future, not to mention return to shareholders. In the next medium-term management plan, we shall shift to a highly profitable structure through proactive investments in growing domains, optimal allocation of resources, etc. Moreover, we believe that an approach of “synergy” with other companies, such as M&A and business alliances, is vital in achieving high profitability.

3. Advanced human capital management

It is clear that human capital is our most important management resource. The realization of both purpose-driven management and a highly profitable structure is solely dependent on the elevation of the skills and motivation of our employees or the improvement of human capital. In the next medium-term management plan, we will place even greater importance than before on investments in human capital, such as education and training, and grow into an advanced company whose employees can bring higher value to society and our clients.

4. Pursuit of sustainability-oriented management

As long as enterprises are public entities of the society, their activities must not threaten social infrastructure. Each enterprise must take a proactive action toward the realization of a sustainable society, solving social issues it views as important in accordance with its management philosophies. We shall reduce the threats toward the global environment and the social environment in our value chain and pay further consideration toward a sustainable future.

Gist of the next medium-term management plan (basic strategies)

The gist of the next medium-term management plan, based on the aforementioned basic policies and material issues (p. 58), is mentioned below.

1. We aim to enhance our competitiveness so that customers think “PCI is the best” (Material issues 1 and 2).

Technologies and business change in a short period of time in the IT industry. It is necessary to acquire technological capabilities and discern business while taking the future into account in order to aim for growth under such conditions. During this period, we shall elevate our competitiveness, deepening not only technologies, but also the relationship with our clients and further enhancing the industrial and technological domains our group excels at so that our clients will think “PCI is the best in this technology and business domain.”

2. We will reform human capital management (Material issue 4).

The optimization of human capital is necessary for enhancing our competitiveness. The optimization of human capital means focusing on domains where we can compete and optimally allocating human resources based on their abilities and characteristics. Apart from investments in education for acquiring advanced skills, reskilling, etc., we will enrich investments for upgrading the HR system, cultivating corporate culture and creating a diverse, fair and inclusive organization. By this, we will improve the engagement of our employees and work toward elevating productivity and bringing about innovation.

3. We focus on measures for realizing sustainable growth (Material issues 3 and 5).

While engaging in a variety of activities for promoting a carbon-free society, we will seek the realization of management by diverse human resources, aiming for an inclusive enterprise (to correct various inequalities including gender-related issues and improve energetic efficiency in the entire society).

4. We aim for management based on capital efficiency (Material issue 6).

Keeping in mind the balance of the three financial statements: P&L, BS and CFS, we will thoroughly pursue management which allows for the maximization of capital efficiency (ROE and ROIC).

■ Policy for each business segment

The Engineering Business and the Product/Device Business are considered as the “stable core businesses” of our group. Their business model is to continuously and stably provide technologies and products needed by clients and support clients in creating added value. We acquire and train an abundant variety of excellent engineers and build a product management system through these businesses.

Based on such a stable management foundation, we will upgrade the high value-added ICT Solutions Business, which will “drive our growth,” aiming for a shift to a more highly profitable business structure. We have stated the three pillars for achieving it; namely, investment in human capital to further increase the number and elevate quality of our engineers, investment in research and development to create new products and new businesses incorporating cutting-edge technologies, and investment in M&A to effectively and efficiently complement our group, and we believe that it is vital to establish a favorable cycle of proactive and continuous investment.

(Group companies and areas of business by each segment)

Segment (Position in the business portfolio)	Group companies (consolidated subsidiaries)		
	PCI Solutions INC.	SORD CORPORATION	PRIVATECH Inc.
Engineering Business (Stable core business)	● Embedded software development ● Enterprise software development	● Kitting services ● Call centers and services for computer operation	—
Product/Device Business (Stable core business)	—	● Development of embedded computers and controllers ● Development of edge computers	● Semiconductor design and testing ● LSI turnkey services
ICT Solutions Business (Growth driver)	● AI-based solution development ● Cloud service integration	—	● IoT platform development ● AI-based solution development

[Engineering Business]

In the Engineering Business, we have formulated business policies composed of the three categories: “core fields,” “focused fields” and “growth fields,” considering both the forte of our group and the life cycle of each technology matching the client’s industry and development theme.

[Core fields] Create a revenue foundation through continuous quality improvement in our strong fields where we have made numerous achievements.

[Focused fields] Focus on intensively investing capital in fields with strong demand and promising development themes to expand our business scale.

[Growth fields] Study new fields and new technologies where significant demand is expected from early on to support the market growth.

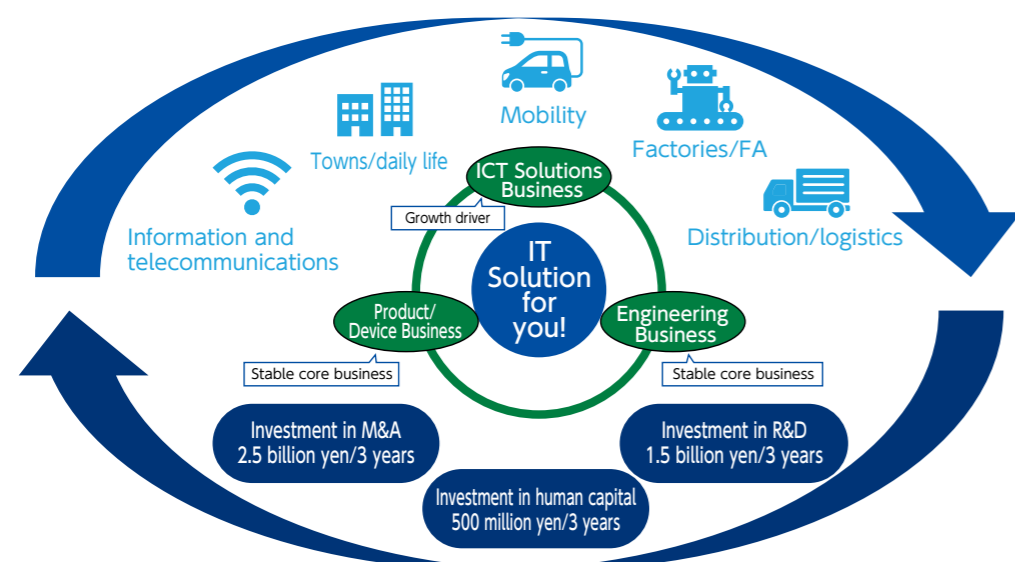
We will optimally allocate our engineering resources cultivated through advanced technological education and reskilling to these three fields so that our group can efficiently capitalize on a broad range of demand in the IT field and aim for growth in terms of both quantity and quality.

[Product/Device Business]

The Product/Device Business is for the hardware aspect of the IT field, such as the design, manufacturing and mass production of computers embedded in large industrial devices (including components such as motherboards, housings and power sources), as well as commissioned design and testing of semiconductors, etc. We never miss out on topics which garner attention such as TSMC’s (Taiwanese company) entry into the Japanese market or the concept of the Kyushu region as a Silicon Island, and fields where remarkable capital is invested are our business domains. While offering our distinctive services and products under these healthy investment conditions, we will contribute to the reduction of environmental burdens through the development of products related to energy conservation, etc.

[ICT Solutions Business]

The ICT Solutions Business “drives the growth” of our group and is considered vital for achieving the diversification of our business. In this segment, we will establish new, high value-added business models, such as the business model of system (service) integration combining cloud services such as SaaS, PaaS and IaaS, a license business model of pursuing widespread utilization of solutions created through joint development (development for launching a service) with our clients, or subscription services for providing such solutions. Moreover, we will utilize our group’s technological and development capabilities in regard to both hardware and software to develop IoT platforms consisting of edge and cloud computing.



Strategic investments (total in 3 years)

- Investment in human capital: 500 million yen**
 - *Expenses for the operation of in-house education departments + external training (Not including expenses for OJT and training converted to the investment amount)
 - *Expenses for external training: Up 3 times from the previous medium-term management plan period
- Investment in products and R&D: 1.5 billion yen**
 - *Up 1.5 times from the previous medium-term management plan period
- Investment in M&A and alliances: 2.5 billion yen**
 - *50% of the operating cash flow (total in 3 years)

Cash allocation (total in 3 years)

Cash inflow

Operating cash flow: 5 billion yen (operating cash flow before posting SG&A expenses for investments in human capital, product development and R&D: 7 billion yen)

Borrowings: 2.1 billion yen

Cash outflow

Investment in organic growth: 2 billion yen (investment in human capital: 500 million yen/investment in product development and R&D: 1.5 billion yen)

Investment in inorganic growth: 2.5 billion yen (investment in M&A and alliances)

Return to shareholders, capital investment, loan repayment, increase of cash reserve, etc.: 4.6 billion yen

Management index targets

Our outlook concerning the management indices for the last fiscal year (FY9/26) of the next medium-term management plan “PCI-VISION 2026” is described below. We place importance especially on “EBITDA margin” in terms of elevating the “quality” of profit, “ROE and ROIC” in terms of capital efficiency and “PBR” in terms of market evaluation.

Item	Organic growth index	Challenges including M&A and new businesses
Consolidated net sales	30,500 million yen	35,000 million yen
Consolidated operating income	2,750 million yen	–
Consolidated operating income margin	9.0%	–
EBITDA	3,050 million yen	3,500 million yen
EBITDA margin	10.0%	10.0% or higher
Profit attributable to owners of parent	1,500 million yen	–
Total payout ratio	50% or higher	50% or higher
ROE	15% or higher	15% or higher
ROIC	15% or higher	15% or higher
PBR	2 or higher	2 or higher

*These targets have been set under the assumption that Leafnet Co., Ltd. and Trackimo GPS Co., Ltd., which are consolidated subsidiaries, will be excluded from the scope of consolidation, as announced in “Notification on the conclusion of basic agreements for transfer of shares of subsidiaries (transfer of subsidiaries) and the posting of extraordinary income” dated June 27, 2023.

*For “challenges,” we took into account the growth after restructuring the business portfolio and launching new businesses by investing 2.5 billion yen in M&A and alliances for inorganic growth.

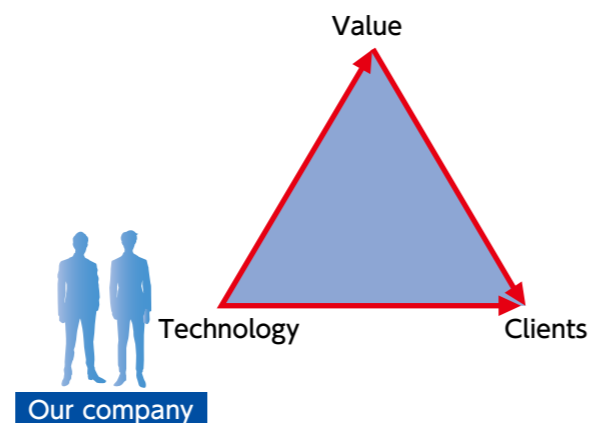


“A very small country is about to enter the civilization phase.”

“Saka no Ue no Kumo (Clouds Above the Hill)” authored by Ryōtarō Shiba begins with this sentence. If the “country” and “civilization phase” in this sentence are replaced with the “PCI Group” and the “second founding period,” respectively, it gives us many suggestions for our future growth strategies. As Ryōtarō Shiba wrote “If a bank of white cloud is shining in the blue sky above this hill, I will climb up this hill while looking at the cloud only” in the afterword, our group will keep walking to fulfill our corporate purpose, which can be likened to the “Clouds Above the Hill.” This stance underlies all of our growth strategies. As depicted by this novel, the Meiji era was filled with a fresh sense of exaltation and optimism. The atmosphere in the rapid growth period after the Pacific War was probably like that. However, amid the lingering downturn in the wake of the bursting of the bubble economy in the 1990s, it seems that a sense of exaltation and optimism, which are indispensable for “growth,” weakened. For 18 years since the inauguration of our business, our company, too, has witnessed the reduced sense of exaltation. From now on, our group hopes to evolve into an enterprise that continues to have a fresh sense of exaltation while considering the business administration in the past 18 years, amid the business environment where securities markets have restructured and enterprises are required to shift to business administration focused on sustainability and human capital and change values as all aspects of society are being digitalized. Under the belief that the pursuit of “a bank of white cloud” is the essence and duty in business administration, we would like to operate business and aim to grow.

■ Business segments

In a nutshell, our group’s business can be defined as **“converting technology into value and delivering it to customers.”** This can be expressed by a simple diagram. It is noteworthy that there are arrows connecting elements. Our group directly delivers intact “technology” to clients in some cases, and converts it into value and then delivers it to clients in other cases. The former means an engineering service, in which our engineers serve clients who require their skills and help clients create added value. The latter means a solution service, in which we convert “technology” into the value of “solving clients’ problems.”



There are a variety of cases, such as the case where “technology” is related to software, hardware, or both. Our group will classify the businesses of operating companies into the following three segments from FY9/24.

Engineering Business: [Information technology services for satisfying each client’s requests and specs in a broad range of industrial fields]

Product/Device Business: [Design, development, and sale of hardware and devices for specific industries]

ICT Solutions Business: [Problem-solving through consulting services utilizing ICT in a broad range of fields]

Sophistication of technologies we hold

Improvement in the ability to convert technologies into value

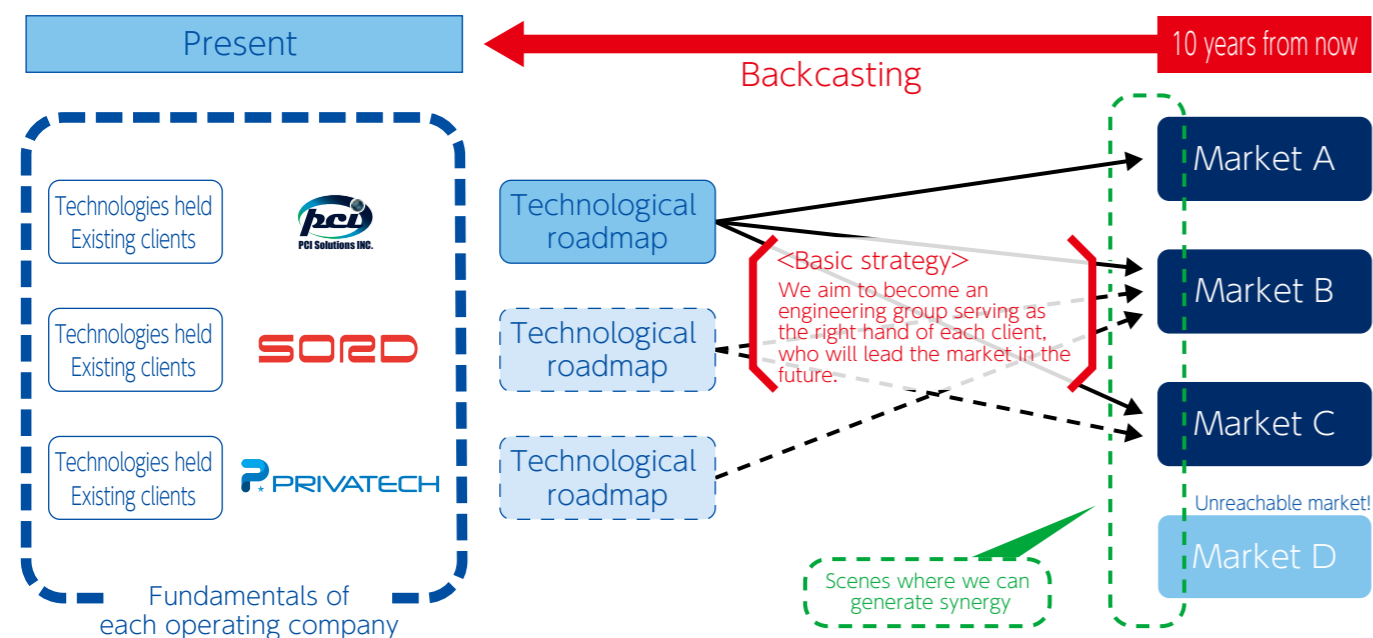
Deepening of relationships with customers

In order to drive growth or improve competitiveness and differentiate our products/services based on the characteristics of our group’s business, we need to set a vision for business by combining the above three elements, and pursue selection and concentration. As digital technology is evolving rapidly, our basic stance for growth in each business segment is to combine the three measures: “to obtain cutting-edge technologies swiftly and deliver related services to customers,” “to combine diverse technologies to develop technologies that would maximize the value for customers,” and “to discern the essence of customers’ problems and offer simple, effective solutions.”

Our group **always strives to contribute to society by providing clients with optimal technologies and supporting and guiding clients.** Our growth strategies are designed under this policy.

■ Technological roadmap

When discussing the gist of our medium-term management plan, which was described in this integrated report, and the long-term vision for it, we produced a roadmap for finding important technologies needed in the near future, based on technology forecast 10 years from now in our technological fields and backcasting from assumed markets 10 years from now. The reason for the combination of forecasting and backcasting is that we need to design a realistic technological roadmap, while accurately forecasting future markets, which needs to be taken into account when discussing medium/long-term visions.



We envisioned the “state of society” around 2035 and forecasted future markets serving as social infrastructure. For example, “Society 5.0” proposed by the government and economic associations represents the Japanese society 10 or 15 years from now, and can be used as reference. We collected and studied this kind of information, focused on 12 markets, including finance, construction, and information & telecommunication, which are expected to support the society around 2035, and classified them into respective technological fields. For example, we envisioned technologies in future society while asking, “How will mobility be realized,” “How will AI be utilized, and which markets will utilize AI the most,” and “How are robots used in real society” in a top-down fashion. The technological fields extracted through this research are not necessarily related to the technologies held by our group, but if there are technologies our group needs to possess in order to contribute to the society around 2035, we have to design a roadmap for acquiring the technologies. Needless to say, we need to produce a roadmap for improving and maturing related technologies that are required for enhancing competitiveness further.

□ State of future society, social issues, and required technological fields (summary, including excerpts)

Areas of specialty	State of future society around 2035	Social issues
Telecommunication	High-speed, low-latency, low-power telecommunication will be realized thanks to communication standards such as 5G and 6G and new telecommunication infrastructure such as IOWN. Communication tools developed by combining AI and technologies for 3D, robots, blockchains, etc. (such as metaverse) will be distributed in daily life and business. New services will emerge, through the fusion of space technology and IT.	Through the distribution of IoT, the communication volume between devices will augment steeply. It is necessary to take advanced measures for telecommunication security. It is necessary to take meticulous measures to respond to the sophistication of regulations on data handling.
Urban mobility	Distribution of electric vehicles Emergence of mobility services through the practical application of self-driving Progress of smart cities Progress of environmental measures, including the reduction of GHG emissions Practical application of flying cars	It is necessary to sophisticate measures for privacy and security. It is necessary to enact laws and develop systems for new technologies. Enterprises in various industries and technological fields need to cooperate or merge, in order to intermittently actualize innovative changes in urban infrastructure.
Factory/ manufacturing automation	Globalization of supply chains Automation of most production lines in small factories through the evolution of AI and cobots Distribution of technologies, including 3D printers The distribution of metaverse and digital twins will make it possible to collect, analyze, and visualize data on a real-time basis.	It is necessary to sophisticate measures for coping with geopolitical risks. It is necessary to respond to the rapid increase of jobless workers due to drastic labor saving. It is necessary to deal with sophisticated and complex measures for information security at factories.
Logistics/ distribution	Improvement in business operation processes through data analysis and forecasting technologies utilizing AI Improvement in convenience and experience of online shopping The streamlining of last one mile delivery with drones, self-driving cars, and cobots will shorten delivery time and reduce costs. The advent of super-apps and the distribution of wearable devices will significantly change the contact points (interfaces) between computers and people. Entertainment will be emphasized in real shopping.	Retailers, which mainly operate physical stores, need to significantly change their business models. It is necessary to cope with the logistics crisis due to the serious shortage of workers caused by the logistics problem in 2024. It is necessary to deal with the market distortions caused by the occupation and oligopoly of markets and data by huge global EC enterprises. It is necessary to cope with the widening and escalation of gaps among regions and generations.

Key technological fields

Data production and application fields: Technologies for self-driving, IoT, and robots
 Data processing field: Technologies for edge computing, cloud computing, and artificial intelligence (machine learning and deep learning)
 Data communication field: 5G and 6G technologies
 Data management field: Blockchain technology
 Data utilization field: Metaverse (3D modeling) technology
 Data protection field: Cybersecurity technology

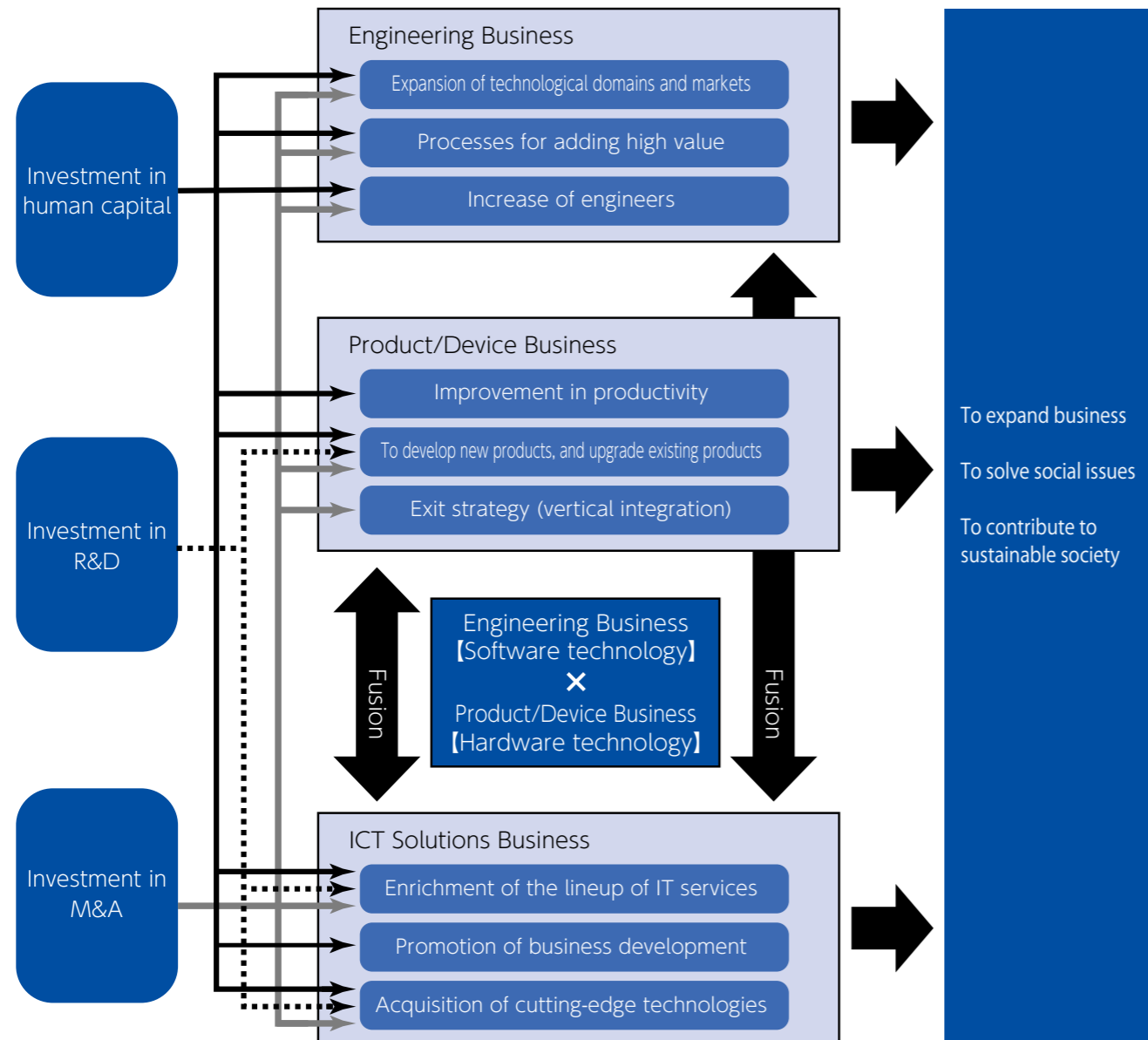
The largest intangible management capital of our group is composed of “human resources” and “technology.” Our group conducts business in the digital industry where technologies change rapidly and are utilized broadly in various ways. Considering such a business environment, it is indispensable to always monitor the “status of society” and “technology” in the medium/long term, pay close attention to the current situation and signs of changes as the backbone for growth strategies, and it is important to continue the following investments for growth.

Three focused area of investment for growth

Our group will actively invest in the following three items. We will clarify investment targets for each business segment, and make efforts to grow our business.

- Investment in human capital
- Investment in R&D for products, etc.
- Investment in alliances and M&A for acquiring subsidiaries

Investment area \ Business segment	Human capital	R & D	M & A	
			Acquisition of subsidiaries	Alliances
Engineering Business	◎	—	◎	△
Product/Device Business	◎	◎	○	○
ICT Solutions Business	◎	◎	○	◎

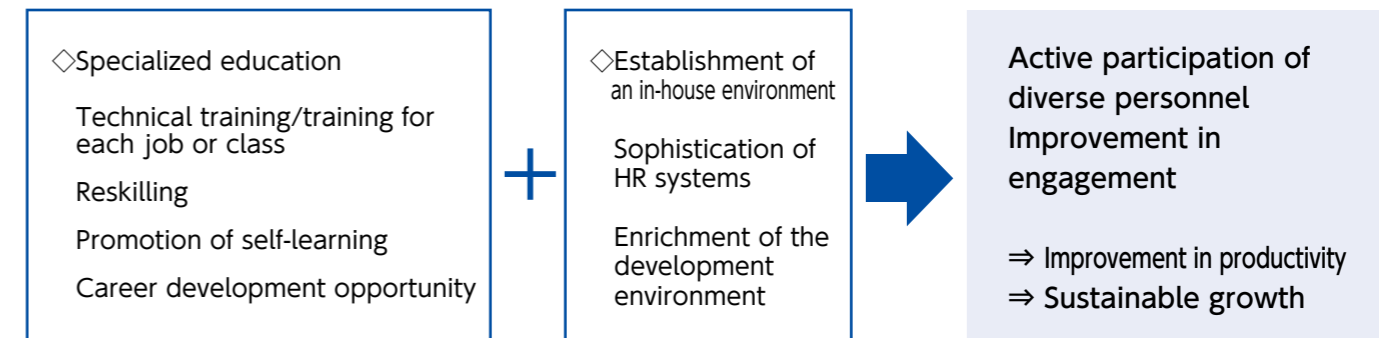


Active investment in human capital

As the total population of Japan is gradually decreasing while birthrate is declining and society is aging, productive-age population is dropping. On the other hand, productivity has not improved so as to cover the decline in the workforce. In particular, in the information service industry, to which our group belongs, the advance of new technologies is rapid and the lifecycle of each technology is short, so the decline in the workforce will produce significant effects. This is also the reason for a shortage of IT personnel.

Our group, too, has a sense of crisis about the environment surrounding human resources. Our group has about 1,500 engineers. The efficient and effective utilization of these engineers as capital is required for growth. We think that **it is necessary to increase human capital with various means for education and training, including reskilling and recurrent education.** For our group, the power of human resources is not merely the number of engineers, but the combination of the three elements: **the number of engineers, technological capability, and engagement.** If productivity improves through the enhancement of technological capability and engagement, the power of human resources can be improved without increasing the number of engineers. With this recognition, we think that it is necessary to enhance the three elements for investment in human capital in a balanced manner. So that every employee will exert his/her ability to the maximum degree, organizational metabolism is necessary to adjust the change of business in future, and develop an organization in which diverse personnel who possess various attributes and skills can realize intellectual fusion. In particular, we aim to establish an organizational structure in which engineers can improve themselves and develop flexible “workplaces.” By doing so, we hope to develop an organization filled with “a fresh sense of exaltation.”

□ Growth through the investment in human capital

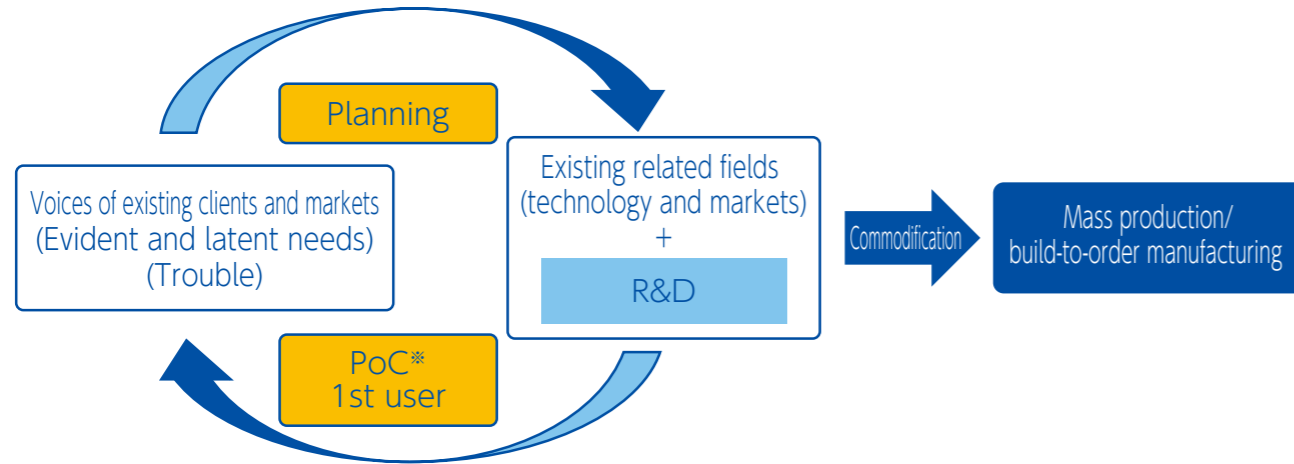


Note: For details about diversity, inclusion, and employees' engagement, please see page 66.

Outside our group, there are business partners who engage in business operations together with us. Business partners are not categorized into the human resources of our group, but categorized into the social capital of our group. They can be considered as open, decentralized human capital. An important part of our growth strategy is to utilize the human capital of each company based on various schemes, including cooperation, co-creation, and alliances, while sharing business issues.

R&D of products, etc.

Our group concentrates on R&D for producing new services and products and evolving existing services while incorporating the latest information technologies, which are becoming more and more sophisticated and diverse. We aim to solve a variety of social issues by always paying attention to the “voices” of customers and markets and pursuing advanced technologies. In order to contribute to the realization of a sustainable society, we will promote R&D for element technologies, applied technologies, and adding high value to existing products to strengthen our existing business and create new value in a balanced manner.



*PoC (Proof of Concept) means examining the feasibility, expected effects, etc. of new ideas or concepts.

(Current theme for R&D)

•Product/Device Business

Needs	Theme
To save power and resources	Development of in-house controllers and successor models to embedded computers
To save power	Development of in-house motherboards
To save power and produce low-carbon products	Development of inverter boards
To realize environment resistance and physical security	Research into edge computing
To use AE sensors (detect acoustic reflection)	Research into machine failure prediction systems
To realize both high-speed response and high stability	Research into new motor control technologies
To improve the measurement precision of digital temperature and voltage sensors	Research into detection of deterioration of LSI chips

•ICT Solutions Business

Needs	Theme
To adopt real-time information transmission and communication systems in society	Research into the utilization of V2X (Vehicle to Everything)
To actualize long-time operation by reducing power consumption	Research into advanced IoT platforms
To recognize distance, speed, and traveling direction, and detect running vehicles even in the nighttime based on the movement of light	Research into the utilization of AI-based image recognition
To analyze defective and non-defective products by detecting and sorting objects based on image analysis	Research into AI-based detection of objects
AI-based analysis of images taken by drones	R&D for sophisticating systems for inspecting solar power plants

Business and capital alliances, and M&A

One of our group’s social missions is to solve various issues with digital technology. On the other hand, what our group can solve by ourselves is limited, as the diversification and decentralization of society and IT have made increased interdependent relationships and made horizontal structures complex, the advance, hierarchization, and specialization of society and IT have made vertical structures complex, and the complex society and the black box of advanced IT field have expanded against the backdrop of these phenomena. This is a common issue among companies that conduct the same kind of business as our company. Solutions cannot be found, unless respective enterprises cooperate and co-create things while utilizing their strengths and networks. It is becoming indispensable that multiple enterprises produce some results in a collaborative scheme.

For our group, too, it is becoming essential to cooperate and form tie-ups with other companies, in order to solve clients’ current problems and various social issues in the future. For short-term and project-specific issues, it is necessary to cooperate. For mid/long-term and mutually complementary issues, it is necessary to form tie-ups. For acquiring market competitiveness, with which we can realize “1 + 1 ≥ 2,” it is indispensable to select and coordinate various methods, including capital alliance and acquisition, and create optimal value for clients and society. We keep in mind that such coordination requires a global perspective.

[Basic policy for M&A and alliance]

- The management policies of target enterprises are in line with the management policies of our group.
 - : To sincerely attend to clients, pursue the well-being of employees, and complete our social missions
- The synergy with existing group companies is expected sufficiently.
 - : Intellectual assets (such as human resources, technologies, brands, and networks with clients) enhance or complement “strengths.”
 - : In general, there are mid/long-term group growth scenarios, synergy, and potential.

[Purposes and target enterprises in each segment]

Business segment	Purposes	Target enterprises
Engineering Business	To secure IT engineering resources To use engineers in fields with high added value To meet the demands from clients to the maximum degree (expanding customer base)	Enterprises operating the engineering business (horizontal integration) (Software companies facing the difficulty in business succession) Enterprises specializing in consulting (IT and business operations)
Product/Device Business	Improvement of one-stop solutions fusing hardware and software	Enterprises holding technologies for enhancing the differentiated domain Enterprises that own effective sales channels
ICT Solutions Business	Enrichment of the lineup of services	Enterprises offering IT services (in-house products and services) (package vendors that have a certain share, etc.)

Business strategies of group companies

PCI Solutions INC. [Engineering Business] [ICT solutions Business]



As of the end of March 2023

Representatives	Toyomi Amano, Representative Director and Chairperson Motomasa Moriya, Representative Director and President	Date of establishment	September 2012
Number of employees	899	Capital stock	360 million yen
Net sales (FY9/22)	10,230 million yen	Ordinary income (FY9/22)	899 million yen
Shareholders	PCI Holdings, INC. : 100%		
Main office	Tokyu Toranomon Bldg., 1-21-19 Toranomon, Minato City, Tokyo		
Other bases	Yokohama Office (Nishi Ward, Yokohama City), Nagoya Office (Naka Ward, Nagoya City), Osaka Office (Chuo Ward, Osaka City), Toyocho Development Center (Koto City, Tokyo), Ueno Development Center (Taito City, Tokyo)		
Consolidated subsidiaries	Institute of PCI Solutions INC. and Personal Joho System, Inc.		

PCI Solutions aims to contribute to the improvement of added value through the digitization in client companies by utilizing its reliable technical capabilities and abundant engineering resources and to become a company with high added value through its original solutions.

Business description

PCI Solutions is a company that uses IT to solve a variety of customers' issues.

The Industrial Business Headquarters provides system engineering services (SES), such as the commissioned development of embedded software for information devices for automobiles, construction machinery, smartphones, and cameras.

The Enterprise Business Headquarters provides SES, such as the commissioned construction of information systems and IT infrastructure for the financial industry, distribution industry, government offices, etc.

The Platform Division realizes DX for client companies by combining cloud platforms such as SaaS, PaaS, and IaaS. In addition, we are working to establish new business models with higher added value by jointly developing solutions with our customers and partners while using our own research and development technology.

The Product Solutions Division sells operation support software for large-scale systems, mainly mainframe systems, peripheral devices, security software, etc., and provides installation services.

Features and advantages

Currently, sales of PCI Solutions' business are mainly generated by the engineering business that provides technology to customers who need it and supports the creation of added value for customers. Our main customers are major global manufacturers of finished products, their affiliates, and system integrators. Thus, continuously delivering the best technology for a long period of time is our feature. By partnering with our client companies, we contribute to society and form a stable management base for our group. Based on this stable management foundation, we actively invest in human capital to improve the quality of engineers and increase their number and invest in R&D to create new businesses by incorporating cutting-edge technology. Through this favorable investment cycle and by accurately grasping changes in technological trends



Motomasa Moriya
Executive Officer of PCI Holdings, INC.
Representative Director and President of PCI Solutions Inc.

to turn them into business opportunities, we achieve stable growth of existing businesses and endeavor into new businesses with higher added value to enhance our superiority.

As an investment in R&D, we mainly conduct activities centered on our subsidiary, Institute of PCI Solutions INC. Please refer to the Institute of PCI Solutions' page (p. 52) for details.

Regarding an investment in human capital, we have established the Education Section of the Human Resources Development Department, which is a specialized department that provides technical training, such as programming language and embedded development training, as well as education through our original programs, such as project management and business skill training. In addition, since the results of our original education and training programs have been highly evaluated, we are also providing them to other companies for a fee, which is generating profits as a business.

Priority initiatives

In the engineering business, based on both our own strengths and the lifecycle of technological trends according to our customers' industries and development themes, we have classified our policies into three fields: "the fundamental field," "the growth field," and "the focus field." In the fundamental field, where we have a wealth of experience and we are strong, we will strive to continuously improve quality and strengthen these fields as an earning base. On the other hand, the growth field is a field where we will strive to acquire new technologies from an early stage to respond to new fields where demand is expected to expand in the future. In the focus field, we will concentrate our resources on industries and development themes where needs are rising among growth fields and expand the scale of our business. We will optimally allocate engineering resources, which we have cultivated through advanced technology education and reskilling, to these three fields, efficiently incorporate robust demand in the IT market into PCI Solutions' business and aim for growth in terms of both scale and quality.

PCI Solutions has strengths in developing control-related software for mobility, such as automobiles and construction machinery. As for AUTOSAR, which is a development architecture for automotive embedded software, training of engineers has been successful as we worked on it from the stage of "the growth field" at an early stage. Thus, demand has expanded as technology has standardized, and we have entered "the focus field" stage and are making a major contribution to the growth of our group. The mobility industry is at a major turning point as the source of added value shifts from hardware, such as engines, to software. Going forward, we will focus on SES for the mobility industry, positioning it as one of our most important growth fields.

In addition, as the next pillar of growth, we are strengthening partnerships with platform providers, such as Amazon Web Services (AWS) and Salesforce. We are also working to establish new business models with higher added value by leveraging alliances, for example, by promoting horizontal deployment, through creating new solutions by jointly developing systems that use our unique technology with partners with strong sales capabilities. So far, our main market has been the information system market for large companies in metropolitan areas, but in the future, we aim to develop the market for medium-sized companies and small and medium-sized companies nationwide against the backdrop of strong DX demand. Thus, we will fulfill our social mission of correcting regional disparities and disparities due to company sizes in Japan and also capture DX demand, which is expanding rapidly and in a wide range of industries, as the next growth engine for our group.

We will preferentially shift the engineering resources of about 800 employees of PCI Solutions to the above priority fields to ensure our growth.

Topics

The Platform Division is promoting stronger collaboration with global platform providers. As an example, we have been certified by Amazon as an AWS Select Tier Service Partner of the AWS Partner Network (APN) for actively working to improve the skills of engineers, such as training for acquiring AWS certification and community management. In particular, we have an extensive track record of implementing Amazon Connect, an AWS cloud-based contact center service.

Regarding the creation of original solutions, our group has been working to address the issues of road workers getting involved in traffic accidents while working, ensuring the safety of children's school routes, and improving the safety efficiency of maintenance of green power. By applying the AI image recognition technology and hardware know-how we have accumulated through research and development so far, we have developed original solutions such as "rear approaching vehicle detection system," "pedestrian safety monitoring system," and "solar power generation panel failure detection system," and we began implementing them in society. These solutions have been created through collaboration with leading companies in their respective industries and partner companies with strong sales capabilities, and we will promote the dissemination of these technologies horizontally in the future.

As of the end of March 2023

Representatives	Yuji Sudo, Representative Director and President	Date of establishment	April 1970
Number of employees	359	Capital stock	499 million yen
Net sales (FY9/22)	8,648 million yen	Ordinary income (FY9/22)	162 million yen
Shareholders	PCI Holdings, INC. : 100%		
Main office	Sord Bldg., 5-20-7 Masago, Mihama Ward, Chiba City, Chiba Prefecture		
Other bases	Kawasaki Office (Saiwai Ward, Kawasaki City), Kanda Office (Chiyoda City, Tokyo)		

As the origin of our company name, “SORD,” suggests, we aim to be a company that continues to grow together with our customers by providing safe and secure solutions to them by combining the technologies of “Software” and “haRDware” to create excellent products and services.

Business description

SORD manufactures specialized computers for specific purposes (embedded computers) and their peripheral devices for customers such as industrial equipment manufacturers and system integrators, and designs, develops, manufactures, sells, and maintains the software.

We also provide additional services such as kitting, support desk operation, and repairs so customers can use embedded computers smoothly. For example, in our kitting service, we provide necessary pre-installation work, such as installing basic software and application software, and connecting peripheral devices, according to each customer’s request.

Features and advantages

SORD was founded at the dawn of the PC era by developing and manufacturing M200, the first domestically produced PC, and has been manufacturing PCs in the Toshiba Group for many years. We have the technology to design the core parts of computers, such as motherboards, housings, and power supplies. We can design and manufacture computer products from scratch by properly selecting, verifying, and combining a wide variety of parts based on our unique technical capabilities and know-how, and we can also provide maintenance and incidental services.

We have established a system for collectively conducting business at the head office in Mihama Ward, Chiba City, which is easily accessible from the Tokyo metropolitan area. Because we manufacture our products in Japan, we can meet customer requests promptly with high quality, which is our forte. For example, the analysis of failures of SORD products can be completed in Japan, so it is possible to handle it in a short period of time.

SORD’s embedded computers are embedded in industrial equipment and information systems such as medical equipment, printing equipment, self-service terminals, retail store systems, medical accounting systems, and digital signage. Thus, we customize and deliver our products according to the needs of customers, such as finished product manufacturers and system integrators. In order to optimally design and create various specifications such as shape, installation environment, maintainability, and continuous operability for each customer’s application, we manufacture embedded computers with



non-standard form factors (physical specifications such as shape and size).

We are required to manufacture embedded computers while responding to long-term supply and long-term maintenance needs as they are required to maintain a certain level of quality that guarantees operation throughout the mass production and sales period of industrial equipment and the maintenance and operation period of information systems. When SORD’s embedded computers are used in a device or system, it is required to ensure stable mass production of a certain amount for a certain period. SORD’s strength lies in its expertise and system guaranteeing this “long-term mass production.” A computer consists of many components, and some parts may be discontinued during the customer’s mass production and sales period. In such a market environment, in order to continue stable mass production for a long time while guaranteeing the same performance, it is necessary to operate this business with a high degree of difficulty based on a wealth of experience. SORD has the know-how and system to do so. This is what greatly differentiates SORD from many PC manufacturers that chase trends while repeating mass production in a short time.

For example, if a certain type of medical device that uses SORD’s embedded computer is mass-produced and sold on a scale of several thousand units annually for five years, SORD can reliably supply the embedded computers until the end of use for that medical device. The establishment and maintenance of this long-term stable supply system establishes a trust on which we are able to build business relationships with excellent customer companies, leading to superior business models.

In terms of services, we take advantage of our location with good access to the Tokyo metropolitan area to undertake kitting and installation, so that we can meet the needs of customers who want to install a large number of PCs in a short period of time. For example, in a project related to the Ministry of Education, Culture, Sports, Science and Technology’s GIGA school concept, where it was required to provide learning PCs for compulsory education students, we have a track record of kitting 30,000 units in five months.

Priority initiatives

In the future, we will provide products and systems that ensure stable operation from the perspectives of both hardware and software through cooperations with the software business divisions of all companies in the PCI Group and collaborations with venture companies in the AI-related application area. In addition, we will further enhance service aspects such as maintenance and kitting for business expansion, and work to provide products that users can use for a long time with peace of mind and enhance services with a focus on hospitality. Moreover, we will strive to constantly improve the performance (environmental resistance, durability, resource-saving, power saving, etc.) of our existing products by continuing research and development.

Based on these initiatives, we will focus on developing the edge computing market as a place to utilize the PC technology we have cultivated. Edge computing is one of the areas with great growth potential in the IT market. It is a powerful implementation method where data processing is conducted at the place where the data are generated, which can be used in factory automation, self-driving cars, smart cities, and smart agriculture. This addresses the issues that arise with the rapid spread of AI technology (reducing data delays, data communication traffic, cloud data storage, and data security risks, including privacy). Also, since stable operation is required over the long term for both data collection and data processing, SORD’s know-how can be put to good use.

In terms of the environment, in addition to saving resources and power to produce our products, through a management system that conforms to ISO14001, we will continue to engage in environmental activities (e.g., the reuse of packing materials) that can only be done by SORD, a skilled manufacturer of embedded computers.

Through these efforts, in the red ocean of the PC market, where diverse competition is spreading, we will find a stable unexplored business domain, “a blue island,” which is something only SORD can do.

Topics

In addition to the aforementioned GIGA school project, we have accumulated successful examples of conducting measures to strengthen our services and handle large-scale projects. We have completed a project related to online eligibility confirmation for the Ministry of Health, Labour and Welfare, which converts Individual Number Cards into health insurance cards (2,000 units in 4 months), servers for government offices (3,500 units in 6 months), etc. In particular, for online eligibility confirmation-related projects, we provided a one-stop service from the selection, procurement, kitting, field survey, and installation of PCs and peripherals, including those of third parties.

As of the end of March 2023

Representatives	Yasuhiro Yamashita, Representative Director and President	Date of establishment	April 1989
Number of employees	252	Capital stock	100 million yen
Net sales (FY9/22)	2,800 million yen	Ordinary income (FY9/22)	242 million yen
Shareholders	PCI Holdings, INC. : 50% (subsidiary) Restar Holdings: 50% (equity-method affiliate)		
Main office	Restar Bldg., 2-10-9 Konan, Minato City, Tokyo		
Other bases	Kawasaki Office (Saiwai Ward, Kawasaki City), Kansai Technical Center (Yodogawa Ward, Osaka City), Kyushu Technical Center (Chuo Ward, Kumamoto City), Kyushu Technical Center Fukuoka Office (Sawara Ward, Fukuoka City), Test Center (Nakahara Ward, Kawasaki City)		

As our corporate name is derived from the slogan: “We provide PRIme VALue for customers through our TECHnology,” PRIVATECH provides customers with the highest value through technology.

Business description

PRIVATECH provides three businesses or services to semiconductor manufacturers and electronics manufacturers.

The first is a commissioned service business that includes the design and development of semiconductor integrated circuits, test solutions, analog and digital circuit design, and embedded software (firmware, device drivers, etc.) development.

The second is providing products and services based on system solutions using IoT platforms and AI that fully use sensor, communication, and image processing technologies.

The third is technical support for semiconductors such as MPUs and image sensors. This service utilizes the specialized technical knowledge of PRIVATECH engineers to provide know-how to prevent trouble and convenient methods when using semiconductors.



Features and advantages

It was said that the semiconductor industry, in which PRIVATECH operates, has a cycle of boom and bust (silicon cycle), but now semiconductors have become a core technology for various industries that support society in terms of information communication equipment, automobiles, medical equipment, AI, robots, etc. Although there are temporary plateaus, long-term growth continues with low volatility. PRIVATECH has been able to achieve stable growth because its customers are

major blue-chip companies, and its business domain is in the development field, which is less susceptible to semiconductor inventory adjustments.

In particular, for test solutions, we take pride in playing a part in supporting high-quality semiconductors in Japan, as we have a system of more than 100 semiconductor test engineers, and we are entrusted with highly confidential development processes from prototype characteristic tests to test program development and mass production tests. By owning semiconductor testing equipment and various other measuring instruments in our own clean rooms with a high level of air purity, we are able to improve the technical capabilities of our test engineers and create new test solutions.



Furthermore, PRIVATECH has achieved quantitative management based on lot management on a project-by-project basis while keeping up with the ever-advancing technology and developing new businesses. We also have a corporate culture and systems that accept and nurture diverse human resources, coupled with assigning the right engineers to the right positions. At PRIVATECH, many of our employees will pursue careers as engineers, and in addition to technical skills, we create opportunities for them to be involved in a process from project management to organizational management step by step, to nurture their management skills while assessing their aptitude.

Furthermore, we encourage employees to take on the challenge of developing new business, and we hope that exposure to new technologies will lead to improvements in technical capabilities and motivation. Through these efforts, we are fostering a corporate culture of a group of engineers in cutting-edge fields.

In addition, PRIVATECH established the Kyushu Technical Center in Kumamoto City in 1992 and currently has 30 employees. With the construction of new factories in Kumamoto Prefecture by TSMC, a major Taiwanese semiconductor manufacturer, and Sony Semiconductor Solutions, a semiconductor manufacturer and the global market leader of image sensors, Kyushu is once again in the spotlight as the “Silicon Island.” We will also contribute to the development of the Silicon Island with the Kyushu Technical Center at the core.

Priority initiatives

Based on the “4Ds:” “Device,” “Design,” “Development,” and “Digital Transformation,” and the “4D+,” which adds new added value to the “4Ds,” PRIVATECH develops manufacturing solution services.

We aim to build a more profitable business portfolio by stably growing the engineering service contract business for customers of semiconductor manufacturers, which is our core business, and offering a turnkey service that provides comprehensive contract services from product design to mass production to customers who require custom LSIs tailored to their products.

Additionally, we strive to develop system products that satisfy our customers by providing unique system solutions by leveraging our technological capabilities to provide comprehensive in-house development from firmware to device driver and application software, which requires advanced technical knowledge of both hardware and software. Examples of product development include product lineups that utilize our IoT platforms, such as a real-time board inspection solution using AI (SatisAI), a water leakage detection system, and a cloud-based reservation/entry/exit management system (EL Master). Moreover, we will take on the challenge of achieving high profitability in terms of both products and services by introducing a recurring-type business model with the aim of reducing the initial investment cost of our customers. This is a solution that can only be realized by PRIVATECH, a group of professionals who have superior knowledge of semiconductors, which are the basic components of applied electronics technology.



Topics

We conduct cross-industry activities and actively collect and disseminate information by joining organizations such as Nippon Electronic Device Industry Association (NEDIA), Edge Platform Consortium (EPFC), Kyushu Semiconductor & Electronics Technology Innovation Association (SIIQ), Kumamoto 3D Collaboration Consortium, Kitakyushu Semiconductor Network, Kumamoto Industrial Federation, and Oita LSI Cluster Promotion Council.

For example, at NEDIA, we serve as a special member of the Electronic Device Strategy Map Committee, contributing to the electronic device industry information magazine entitled “Electronic Device Strategy Map” and giving lectures. In addition, the Kumamoto 3D Collaboration Consortium has been selected as a subsidy project by the Cabinet Office and will conduct research on innovative eFPGA test development in collaboration with Kumamoto University.

Moreover, PRIVATECH is working on research and development of technology to monitor crop growth conditions in vegetable factories. It is a unique technology that achieves crop weight estimation with high precision using images from stereo cameras that can measure distance. It is a technology that can be expected to be applied in many fields, not limited to crop growth monitoring, as it is a versatile technology for efficiently extracting spatial information from image data and improving the accuracy of machine learning models. Patent is pending with Institute of PCI Solutions INC. and Data Steps Inc. (partner company). Thus, we have begun efforts to conduct research into elemental technology to solve future social issues.

Institute of PCI Solutions INC. [Research and Development]



As of the end of March 2023

Representatives	Yukio Kiyomiya, Representative Director and President	Date of establishment	August 2017
Shareholders	PCI Solutions INC. : 100%		
Main office	Tokyu Toranomon Bldg., 1-21-19 Toranomon, Minato City, Tokyo		

Anticipating the future, Institute of PCI Solutions INC. takes on the challenge of solving various problems in the real world through research and development, verification, and information dissemination of cutting-edge IT to contribute to the realization of a secure, safe, and prosperous society.

Business description

Institute of PCI Solutions INC. conducts surveys, research, development, and verification of information systems and IT services using cutting-edge technology that anticipates future changes in society and IT trends in the next 3 to 10 years. We are conducting surveys and research activities related to formulating a roadmap to explore the direction of our group's business development by backcasting the changes in society and IT trends in the future 10 years from now. At the same time, we are conducting surveys and research activities on technologies that are likely to be necessary for the business of PCI Solutions and the PCI Group in the next 3 to 5 years based on forecasting.

As a research stance, we do not stop at desk research, but we also value actively engaging in on-site activities such as proposal activities to customers and system development projects in cooperation with the business divisions of our group companies and partner companies such as business alliance partners. By doing so, we demonstrate advanced technology and disseminate information on the obtained knowledge inside and outside our group. We function as a hub for linking technological and industry trends with business divisions and play a central role in creating new value for the PCI Group.



Features and advantages

Institute of PCI Solutions INC., whose predecessor is the PCI Solutions' R&D department, has been engaged in research on control-related technology for mobility (automobiles and construction machinery), which is the priority area of PCI Solutions. For example, working with the research and development department of an automobile company to develop a mini vehicle for sightseeing led to research on geofence technology and V2X (Vehicle to Everything) technology to follow the restrictions of the driving area. Geofence technology is used to set an area where vehicles cannot enter, and through V2I (Vehicle to Infrastructure: information exchange between vehicles and infrastructure such as traffic lights) and V2N (Vehicle to Network: information exchange between vehicles and networks) technologies, regulation information and avoidance control instructions are sent to and received from the vehicles that enter the area.

In addition, due to the third AI boom (evolution of deep learning technology), self-driving technology has made great progress. Especially in areas such as image analysis and assessment, high accuracy was achieved for deep learning technology, and the research area of Institute of PCI Solutions INC. is inevitably expanding into the AI image recognition technology field.

Initially, we launched AI research and development speedily by mainly using libraries (collections of highly versatile programs). Since then, we have been promoting the development of our own technology, and by combining road recognition, vehicle recognition, cell illumination change detection, distance/speed/course change recognition, etc., we have developed unique technologies, including patented technologies such as "Moving Object Detection System" (Patent No. 6980887) that can detect moving objects with high accuracy by limiting the vehicles to be detected, "Feature Quantity Extractor" (Patent No. 7166415) that efficiently extracts spatial information from video and other input data to improve the accuracy of machine learning models, and "Machine Learning System" (Patent No. 7140933) that easily creates a large amount of learning data using 3D virtual space.

Priority initiatives

At present, Institute of PCI Solutions INC. is working on technology development focusing on the following fields in order to contribute to a secure, safe, and prosperous society.

The first is the technology field that can be applied to vehicle control-related fields. We survey, research, demonstrate, and disseminate information on technologies that will contribute to the growth of the PCI Group over the next three to five years.

The second is the technology field which creates practical systems with a high return on investment by applying versatile tools and devices to the field using advanced software technology. We aim to eliminate constraints such as "difficulty in installing special equipment and sensors" and "a lack of AI learning data."

The third is the technology field that creates systems with high operability that satisfy on-site users. We aim to eliminate dissatisfaction such as "expert knowledge and many operations are required for use," "excessive AI detection alerts are raised," and "feedback input for learning data is required."

In addition, from a medium- to long-term perspective, we are working to formulate a technological roadmap covering 12 markets and 35 categories in order to explore the direction of our group's business development in anticipation of future changes in society and IT trends.

Topics

During the library-based AI research and development activities, we came across Intel's OpenVINO toolkit, an AI library suite, and have won consecutive awards in Intel's solution development contests.

In addition, by applying the technology of Institute of PCI Solutions INC., including the patented technologies, our group's business divisions have put into practical use our unique solutions, such as the "rear approaching vehicle detection system," "pedestrian safety monitoring system," "solar power generation panel failure detection system," and "crop growth monitoring and analysis system."

Track Record of Receiving Awards at the OpenVINO Contest

The 2nd Solution Development Contest for OpenVINO Toolkit

The 3rd Development Contest for OpenVINO Toolkit

Received the Award for Excellence

Received the Perfection Award



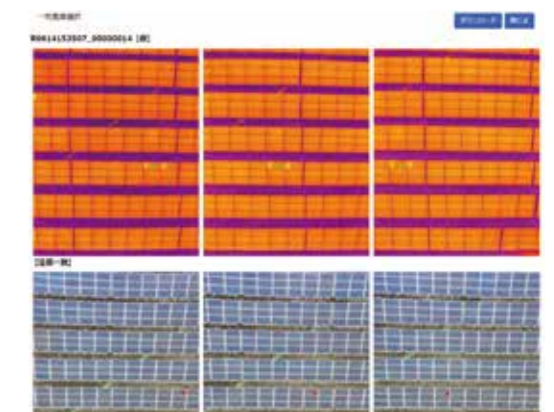
A proposal for distributed AI/cooperative system

Approaching vehicle detection system utilizing independent distributed AI platform

Solar power generation panel failure detection system



Inspection information screen



Comparison of panel images

Employees' round-table discussion on the missions and future of the PCI Holdings Group

The conference body "PCI Transformation" (abbreviated as "TeamPX"), consisting of mid-level employees who will shape the future, has been engaging in discussions regarding our group's long-term vision. In this integrated report, we would like to introduce the discussions of four members of TeamPX in a roundtable format.



Shingo Yumoto,
PCI Solutions INC.



Naoki Kawaguchi,
PRIVATECH Inc.



Ai Kono,
PCI Solutions INC.



Hiroyuki Takahashi,
SORD CORPORATION

How do you feel about TeamPX's activities?

Takahashi: The discussions in TeamPX from 2022 were truly meaningful with various insights. When President Sudo from SORD CORPORATION asked me to participate in the vision-building workshop for the "ideal state" of the PCI Group's future, I must admit that I was a bit puzzled about where to start. However, while I engaged in the activities with teammates of the same generation within the PCI Group and discussed the future social landscape from various perspectives and angles, I gradually began to enjoy and feel excited about the process. At each meeting, we discussed how our company should address social challenges and pursue growth as a business.

Kawaguchi: SORD and PRIVATECH had a professional relationship even before joining the PCI Group, didn't they? We used to work together as separate companies, and now, being part of the same PCI Group, we gathered in TeamPX to discuss our long-term vision. It's a fascinating connection.

Kono: It was truly wonderful to have the opportunity to discuss the future vision of the PCI Group and its subsidiaries with President Yokoyama. We were able to understand the values and business strategies of our

group's top executive. We were also able to convey our generation's thoughts and feelings directly to Mr. Yokoyama. As a business professional, I feel like I've gained a chance to grow. Also, I must admit that I was quite nervous at night before our first meeting, imagining Mr. Yokoyama to be an intense and strictly business-oriented person. However, my expectations were pleasantly shattered. He is incredibly kind and attentive, understanding what we wanted to convey through our conversations. He created a relaxed atmosphere where all of us, as teammates, could engage in meaningful discussions.

Yumoto: That's right. I've also had the chance through PX to directly discuss business matters and IT trends with Mr. Yokoyama. And as Takahashi mentioned earlier, it is really beneficial to have an opportunity for employees from different group companies, who don't usually interact much, to learn about each other's work and thoughts. I had hoped that all PX members were present today, but let's take this moment to talk about our individual roles and the satisfaction we find in our current work.

What does a secure, safe, and prosperous society created by our group, which we experience through our daily work, mean to you?

Yumoto: I work for PCI Solutions INC., where I propose and install systems based on SaaS and other cloud services for corporate clients. Our main focus is on the BtoB sector, and most of our clients are corporations. We create systems that bring convenience and happiness to users beyond our client companies. So, rather than directly tackling social issues, we often indirectly address them through our clients. Our role involves integrating our technology and services into our clients' business processes, allowing new business ideas to come to life and difficult challenges to be overcome. Seeing these outcomes firsthand gives me the most satisfaction. For example, there was a clinic dealing with a surge in COVID-19 vaccine inquiries while already busy with vaccinations. The challenge was handling the influx of calls. The conventional approach of setting up an on-premise contact center system to install a telephone switchboard or a server using a waterfall-style development was posing challenges in terms of cost-effectiveness and installation time. However, we used our expertise in Amazon Connect, a cloud-based contact center system, and its SaaS capabilities to set up an automated voice response system for initial phone inquiries. We managed to deploy the system rapidly, which contributed to normalizing vaccine administration operations. This illustrates how our technology and services can turn seemingly impossible tasks into achievable ones for our clients.

Kawaguchi: At PRIVATECH, I work as a field application engineer, providing technical support to electronics manufacturers and others in the field of CPUs and other semiconductor products. PRIVATECH is a company focused on activities like semiconductor integrated circuit design and testing. As semiconductors play a pivotal role in enhancing processing speed and power efficiency across various systems, I truly believe that semiconductor technology forms the bedrock supporting various industries. Thanks to advancements in IT, it is bringing benefits to people across the board. What's unique about PRIVATECH is that we possess the capability to design integrated circuits as well as to develop software, including firmware and device drivers, which control devices. This enables us to create seamless systems and devices without any hidden complexities by ourselves. My aim is to contribute even further to meeting our clients' needs. Furthermore, I'm excited about the potential for collaboration within our group, which I believe can lead to groundbreaking development of devices.

Kono: Certainly, the intercompany collaboration within our group is gradually taking shape. In my present role at PCI Solutions, I'm dedicated to spearheading the development of solutions that leverage our proprietary



technologies. An example of this is our application of AI image recognition technology in a rear approaching vehicle detection system. The primary aim is to mitigate unfortunate accidents where injuries or fatalities occur among roadside service workers due to back collisions on highways. It is a role that carries social significance, and I take immense pride in it. PCI Solutions boasts a robust track record in software development, particularly within the realm of mobility encompassing automobiles and construction machinery. Our research center, Institute of PCI Solutions INC., possesses a treasure trove of proprietary communication and AI technologies, including patented ones. Noteworthy is the recognition from Intel for outstanding performance in the Intel OpenVINO Toolkit AI contest. The development and marketing of distinctive products underpinned by our formidable technological assets indeed offer a gratifying professional pursuit. Moreover, the inclusion of SORD, well-versed in hardware domains, within our group enabled us to embark on collaborative projects. This synergistic approach allowed us to provide our clients with a comprehensive rear approaching vehicle detection system, spanning both software and hardware domains. When watching news shows, a barrage of unsettling events is occurring. At PCI Solutions, we're concurrently engaged in projects such as child safety monitoring during school commutes. Personally, I'm committed to leveraging the power of IT to address pressing social concerns.

Takahashi: Indeed, the opportunity to gather insights from customer feedback across our group's various companies greatly enriches our product development process. In my current role at SORD, I'm engaged in hardware design and development. The name SORD was coined from "SOft" and "hARD." It signifies the fusion of software and hardware, aimed at creating computer systems that are accessible even to those less familiar with IT or in environments where IT usability may pose challenges. Our intent is to expand the realms of IT usability, a shared mission among IT providers. Although SORD's embedded computers might not be immediately visible, they serve a multitude of purposes. You might have encountered them in hospitals, etc., assisting with imaging diagnostic units like CT scans or medical billing systems. The embedded computers of SORD are utilized in such cases. The seamless integration of technology into user experiences is indeed a hallmark of our superior technological solutions.

What is necessary for our group to survive and grow in the future?

Yumoto: The landscape of IT is evolving at a remarkable pace, and honestly, even those of us within the IT sector find it quite challenging to predict where we will be a decade from now. Take, for instance, the recent buzz around ChatGPT, which managed to amass a million users in a mere five days and then reach a staggering hundred million users within just two months of its launch. We are witnessing remarkable phenomena like AI generating code and other significant advancements. In recent times, we've also observed the burgeoning popularity of low-code and code-less systems, which, from our perspective, present more of a business opportunity rather than a threat. Our division has adopted the stance of embracing these trends, considering them as avenues for growth. While staying current with the rapidly changing technology landscape is already challenging for us as engineers, I can only imagine how demanding it must be for businesses outside the realm of IT. Our approach aims to proactively anticipate these technological shifts, enabling us to equip our clients with the tools to swiftly embrace cutting-edge IT solutions. We're focusing on honing our core competencies in cloud computing, networking, edge devices, and other crucial domains to provide efficient IT services at an accelerated pace. Ultimately, refining our technical prowess, maintaining agility, and addressing the genuine needs of our customers remain pivotal in navigating this dynamic landscape.

Kawaguchi: Undoubtedly, predicting the trajectory of technological trends is a formidable task. It is imperative that we stay attuned to these trends without becoming overly fixated on buzzwords, and that we foster our basic ability to adapt to future trends. Reflecting on the emergence of 3D printers, there were dire predictions of the manufacturing industry's downfall within five years. However, reality has shown us that the manufacturing industry continues to thrive beyond that time frame.



Conversely, we've also observed companies effectively harnessing revolutionary technologies like 3D printers to fuel their growth. Amidst the ever-evolving external environment, embracing change and cultivating a long-term vision equipped with essential skills and mindset is vital for survival and growth. This truly means a sustainable management. Furthermore, for us as engineers, staying abreast of new technologies is important as a source of motivation and for career development. It's well known that many of engineers get excited when we come into contact with new technology. Within PRIVATECH, our organizational structure and culture are geared toward continuously engaging in fresh business initiatives. This approach not only drives innovation, but also bolsters the enthusiasm of engineers by exposing them to the frontiers of new technology.

Takahashi: Our group is a collective of distinct businesses, each specializing in semiconductors, embedded computers, and software. With diverse engineers and a wide array of clients, understanding the needs of other companies within our group and their respective customers could provide valuable insights for our work. We've kicked off technical exchange sessions, where R&D engineers from different group companies come together voluntarily to share information. It's a grassroots voluntary effort that brings a unique and positive vibe to these meetings, setting them apart from formal conferences. I hope to foster interactions that transcend generations, job roles, and even group boundaries.

Kawaguchi: Absolutely. The technical exchange sessions have already yielded results. Introducing our respective technical initiatives became a catalyst for timely information sharing, when PRIVATECH provided crucial technical insights to Institute of PCI Solutions INC.

Kono: M&A has expanded our group, increasing group companies. The interaction among operating companies has been producing some small outcomes. I hope that more cooperation will emerge in the future. Additionally, being an IT-focused company doesn't just mean focusing solely on technology. We need to broaden our view to encompass shifts in social norms, work practices, and the evolution of daily life. For instance, as self-driving takes the stage, amendments to the Road Traffic Act and shifts in human behavior are inevitable. Accurately producing software to match client specifications is crucial, but it's equally important to consider how IT evolution aligns with broader social changes. Empathizing with our clients and the end-users of our systems is vital, allowing us to propose solutions that address genuine needs and anticipate unspoken desires. Moreover, our approach involves identifying and tackling challenges that

clients might have deemed insurmountable. Ultimately, we should keep in mind that technology is a tool to enrich and enhance human lives, aiming to contribute to happiness and well-being through our efforts.

How can we increase the number of members of our group and address the shortage of skilled engineers?

Yumoto: When it comes to technology, it's all about the people—both using and advancing it. From the perspective of “advancing technology,” there is a noticeable shortage of IT engineers. As digitalization demand grows, we're also grappling with a shrinking workforce due to an aging population and declining birthrate. The shortage of IT engineers is likely to become a significant issue over the long term. In my division, we're proactively entrusting tasks to our young employees and supporting them in order to foster their growth. Instead of confining them to routine assignments like testing or coding just because they lack experience, we're creating opportunities for them to engage with customer requirements. This holistic view accelerates their learning curve. Additionally, we're enthusiastic about reskilling initiatives for underrepresented groups, such as women, seniors, foreigners, and those from non-IT backgrounds, to flourish in our group. According to reports, Japan's labor force has grown by a surprising 3.37 million people over the past decade despite a decline in the working-age population. This influx of workers comes from three distinct groups: the elderly, women, and foreigners. To bring these individuals into IT roles, we're aiming to provide reskilling opportunities that will empower them to flourish. To achieve this, it's not enough to merely assign tasks for our convenience; we need to equip them with high-demand skills that enhance their value as IT professionals, taking their career growth into account. Within our group, we can tap into the expertise and knowledge we've cultivated over the years and make them accessible to newcomers after standardization and systematization. Even if they lack prior experience, we can offer educational programs to expedite their growth and career development.

Takahashi: At SORD, we've witnessed many cases where newcomers can thrive. We specialize in the



mass-production of computer products with a guarantee of long-term supply and maintenance. Our unique setup involves the extended production and the maintenance of the same product, allowing less experienced individuals to handle tasks like product evaluation with the guidance of accumulated wisdom and knowledge from senior colleagues. SORD's rich history means that seasoned professionals, including those with ample experience, are on hand to offer guidance and support. Their insights provide a strong sense of reassurance even for me as they are to the point. SORD has also recently bolstered its post-retirement programs.

Kono: Fostering the active participation of women is undeniably essential. It's worth noting that our group still has room for growth in terms of women in leadership roles. It would be beneficial if our group could create a space where female employees, who often grapple with the balance between life events and career development, could share their experiences and discuss how they overcome these challenges. As someone who takes on dual responsibilities at home and work, I'm personally dedicated to setting a positive example.

Kawaguchi: I can relate, being a father myself. I used to coordinate work schedules with my wife to ensure either of us could pick up our child from a nursery school. Encouraging women's success also requires a shift in men's working practices. Across our group, including PRIVATECH, it's becoming more common for male employees to take advantage of parental leave, signaling a changing landscape in men's approaches to work-life balance.

As our group keeps expanding, we're also confronted with various challenges. Entering the second founding period, it is essential for our mid-level employees to support each other, wield influence across the organization, and proactively lead transformations to tackle these issues head-on. This collaborative effort will serve as the driving force behind our group's continuous growth.

III. Management base that supports value creation

Identification of material issues for sustainability and SDGs

Today, which our group considers our second founding period, we have identified six material issues in regard to sustainability and decided to give a stronger commitment to sustainability issues. We contribute to realizing a sustainable society by being committed to solving material issues.

1 Material issues

In order to “contribute to the realization of a secure, safe, and prosperous society with IT,” our group has been promoting sustainability-oriented management through our business and corporate activities. In February 2023, we newly identified six material issues regarding sustainability so as to be committed more deeply to tackling sustainability issues.

Material issues	Action items	Risks	Opportunities	Key perspectives
①Achieving a secure, safe and prosperous society through the pursuit of efforts to positively change and innovate	<ul style="list-style-type: none"> To take on a proactive challenge on new technology and innovation To encourage economic growth and realize a comfortable aged society with IT To reduce social and economic disparities with IT To create highly resilient mission-critical infrastructure and networks To build a robust cybersecurity system 	◎	◎	Business aspect (technology)
②Providing truly beneficial solutions to our customers	<ul style="list-style-type: none"> To have dialogue with clients and grasp their needs To thoroughly manage the safety and quality of products and services To thoroughly manage information and protect privacy 	○	○	Business aspect (customers)
③Contributing to the creation of a sustainable global environment	<ul style="list-style-type: none"> To promote measures against global warming To thoroughly save energy and resources To contribute to recycling-oriented society and economy To increase resilience to disasters 	◎	○	Environment (E)
④Developing human resources who find joy in the development of society, business growth, and self-realization	<ul style="list-style-type: none"> To accelerate system reform with the aim of securing human resources and strengthening human capital To enrich investment in education of the employees To flexibly improve personnel policies To improve working and business operation environments/manage the employees' health 	○	○	Society (S) and human capital
⑤Fostering a corporate culture that values diversity, fairness, and inclusion	<ul style="list-style-type: none"> To strengthen and thoroughly ensure education on human rights and due diligence To flexibly deal with demographic changes To provide decent employment opportunities 	◎	○	Society (S) and the entire society
⑥Pursuing fair and just corporate activities that can fulfill accountability	<ul style="list-style-type: none"> To comply with laws and regulations, and strengthen the corporate governance framework To thoroughly manage risks and strengthen the Business Continuity Plan (BCP) system 	○	○	Governance (G)

2 Process for identifying material issues

Our group took four steps in identifying material issues. At the first step, the directors and executive officers of our group companies played a pivotal role in considering the outlook on our long-term business environment in the coming 5 to 30 years. Secondly, we extracted social issues as well as set priority on our group's risks and opportunities in order of importance through surveys of our directors' and executives' awareness and training sessions and questionnaires targeting our employees in regard to 50 and more issues including sustainability issues. Then, we had discussion with outside experts and examined our group's material risks and opportunities and the social issues so defined. Lastly, the Board of Directors had careful deliberations and identified material issues. We will hold dialogue with our stakeholders regarding the sustainability issues on the basis of information disclosed on the identified material issues. We will proactively use opinions and advice provided by the stakeholders in defining and identifying material issues next time.

(Flow chart of the material issue identification process)



(Major activities of the Sustainability Committee from July 2022 onward)

No.	Date	Matters discussed
1	September 16, 2022	1. Information disclosure pursuant to the TCFD Recommendations 2. Establishment of a human capital working group
2	November 18, 2022	1. Proposal for website-based information disclosure pursuant to the TCFD Recommendations 2. Basic sustainability policy 3. Proposal for the structure of an integrated report and its schedule 4. Status of consideration on the long-term vision and material issues
3	December 16, 2022	1. Information disclosure pursuant to the TCFD Recommendations: Transition plan, indicators and targets, and Scope 3 2. Approaches to human capital-oriented management and due diligence on human rights 3. Matters regarding preparation of an integrated report: Identification of material issues
4	February 17, 2023	1. Approaches to due diligence on human rights 2. Matters regarding preparation of an integrated report: Schedule and structure
5	March 17, 2023	1. Approaches to human capital-oriented management and due diligence on human rights 2. Approaches to risk management
6	May 19, 2023	1. Matters related to human capital (engagement survey and examination of human rights risks) 2. Approaches to risk management
7	June 23, 2023	1. Approaches to human capital (engagement and PCI Group's policy for human rights) 2. Approaches to risk management (progress on examination of company-wide risks)

3 Initiatives for SDGs

Our group is also committed proactively to SDGs. We have been focusing on taking advantage of our group's technical capabilities and networks. In addition to enhancement of health and welfare and disaster-prevention measures with IoT-based solutions, we have developed businesses and new solutions that are not just volunteering activities or donation, such as development of IT engineers of future generations and industrial promotion by utilizing the know-how that our group has cultivated.

Environment

Our group upholds the idea of “Contributing to the creation of a sustainable global environment” as one of our material issues regarding sustainability, and sets “To promote measures against global warming,” “To thoroughly save energy and resources,” “To contribute to recycling-oriented society and economy,” and “To increase resilience to disasters” as individual goals.

1 Information disclosure pursuant to the TCFD Recommendations

In November 2022, our group signified our approval for “Task Force on Climate-related Financial Disclosures (TCFD) Recommendations.” We will give an increasing commitment to climate change as well as disclose our progress on our activities in accordance with the TCFD Recommendations.



What is the TCFD Recommendations?

TCFD was established under the Financial Stability Board (FSB), which is an international organization that stabilizes the financial system, and in June 2017, published recommendations calling for disclosure of information on risks and opportunities brought about by climate change. The recommendations state it is important that companies be aware of risks and opportunities related to climate change and incorporate them into their business strategies.

TCFD requires companies to disclose information on the following four basic items: (1) governance, (2) strategy, (3) risk management, and (4) metrics and targets.

(1) Governance

See “Sustainability promotion framework” (p. 25) for details.

(2) Strategy (risk and opportunity analysis)

Our Sustainability Committee played a central role in extracting and identifying risks and opportunities related to climate change while considering opinions of outside experts as well as awareness surveys targeting our group companies.

• Transition risk scenario (the 1.5°C or lower scenario)

This is a standard scenario of reducing the volume of greenhouse gas emissions to zero by 2050 on a global scale. In principle, such matters as policies, energy and industrial structures, and resource prices are based on the “NZE 2050 scenario” in “World Energy Outlook 2021” by the International Energy Agency (IEA), and climate change-related assumptions, such as the average earth temperature, are in line with the “SSP 1-1.9 scenario” in the “Sixth Assessment Report” by the Intergovernmental Panel on Climate Change (IPCC).

• Physical risk scenario (the 4.0°C scenario)

This is a scenario in which no effective policies are carried out to tackle climate change-related issues, including retraction of policies and targets published regarding reduction of greenhouse gas emissions. In principle, such matters as policies, energy and industrial structures, and resource prices are based on the “STEPS scenario” in “World Energy Outlook 2021” by IEA, and climate change-related assumptions, such as the average earth temperature, are in line with the “SSP5-8.5 scenario” in the “Sixth Assessment Report” by IPCC.

In light of the opinion that it is getting more urgent that global greenhouse gas emissions be curbed by about 43% by 2030 and by 60% by 2035 compared to 2019, as indicated in the “Sixth Assessment Report” by IPCC in March 2023, our group will revise our reduction targets.

Regarding risks and opportunities that have significant impact on finance-related matters, such as revenue and assets, our group reconsidered our approaches to them. We believe that appropriate approaches are highly likely to not only mitigate and lessen climate change-related risks, but also contribute to opening up greater business opportunities for our group.

We will appropriately grasp every kind of risks and opportunities, including climate change, as well as further enrich our approaches to risks and opportunities in order of urgency.

Risks	Expected events	Expected time span	Assessment of financial impact	Details of the risks	Approaches	
1.5°C scenario	Policies/regulations	Introduction of carbon pricing (carbon tax, etc.) /tax increase	Medium - long term	Significant	●Direct impact (increased tax burden, etc.) and indirect impact (increase in prices of materials to purchase due to price pass-through) caused by introduction of carbon pricing and tax increase	●Consider introducing an internal carbon pricing scheme ●Consider price scales that follow the climate change-related policies ●Select procurement items with lower greenhouse gas emissions
		Increase in costs due to tightening environment-related regulations	Short - medium term	Moderate	●Increases in administrative workload and costs of such matters as system support following enhancement of ESG-related information disclosure	
	Changes in customer behavior and markets	Shift to environmentally-friendly products and technology	Short - medium term	Significant	●Changes in the structure of the automobile industry due to tightened environment-related regulations (swifter approaches to CASE, etc.) ●Increase in clients' production costs, and a growing number of requirements for cost reduction and performance improvement of software in relation to climate change-related risks	●Develop technology related to software development in such fields as the mobility-related field ●Differentiate products with a focus on environmental friendliness
		Changes in living and working environments	Short - long term	Significant	●Changes in the working environments of client companies (spread of such work styles as work from home and workcation)	
4.0°C scenario	Chronic changes	Increase of the average earth temperature	Medium - long term	Significant	●Increase in air-conditioning cost for cooling down rooms	●Install energy-saving equipment, and adopt renewable and new energy resources
	Acute changes	Intensifying natural disaster (typhoons, floods, landslides, etc.)	Short - long term	Significant	●Suspension of business due to disruption of energy supply, public transportation, etc.	●Formulate and enhance BCPs for measures against climate change ●Consider relocating and dispersing offices ●Enrich the telecommuting environment and enhance related infrastructure

Opportunities	Expected events	Expected time span	Assessment of financial impact	Details of the risks	Approaches	
1.5°C scenario	Policies/regulations	Introduction of carbon pricing (carbon tax, etc.) /tax increase	Medium - long term	Significant	●Growth in demand for IT-related services that contribute to reducing greenhouse gas emissions ●Growth in demand for renewable and new energy sources	●Spur demand for developing ICT systems and solutions for dealing with climate change (decarbonization/reduced power consumption) ●Develop systems and create new business fields that can promptly meet regulations and rules related to decarbonization
		Increase in costs due to tightening environment-related regulations	Short - medium term	Moderate	●Increases in administrative workload and demand of such matters as system support following enhancement of ESG-related information disclosure	
	Changes in customer behavior and markets	Shift to environmentally-friendly products and technology	Short - medium term	Significant	●Changes in the structure of the automobile industry due to tightened environment-related regulations (swifter approaches to CASE, etc.) ●Increase in clients' production costs, and a growing number of requirements for cost reduction and performance improvement of software in relation to climate change-related risks	●Identify technological fields required and improve skills of relevant personnel
		Changes in living and working environments	Short - long term	Significant	●Changes in the working environments of client companies (spread of such work styles as work from home and workcation)	
4.0°C scenario	Chronic changes	Increase of the average earth temperature	Medium - long term	Significant	●Growth in demand for DX by using IT with the aim of reducing energy consumption	●Spur demand for developing ICT systems and solutions for dealing with climate change (decarbonization/reduced power consumption) ●Develop systems and create new business fields that can promptly meet regulations and rules related to decarbonization
	Acute changes	Intensifying natural disaster (typhoons, floods, landslides, etc.)	Short - long term	Significant	●Growth in demand for systems following progress of clients' BCP measures and shift to DX	

③Risk management

In our group, the “Sustainability Committee” takes a primary role in managing risks in order to deal with various risks related to corporate management.

Until we set up the Sustainability Committee in July 2022, the “Compliance and Risk Management Committee,” which is an advisory body for the executive council of the PCI Holdings, managed the risks in our group. In response to the heightening uncertainty in the business environment today, our group decided to entrust the newly established Sustainable Committee with management of a wide range of risks and opportunities, including sustainability-related issues (the Compliance and Risk Management Committee was renamed the Compliance Committee and reorganized as a body that has internal investigation rights regarding mainly compliance management, such as compliance with laws and regulations, and thorough commitment to the corporate ethics).

With regard to climate change-related risks and opportunities, we have established a framework for regularly selecting and identifying them with the Sustainability Committee performing a leading role based on opinions of outside experts as well as awareness surveys targeting our group companies. The Sustainability Committee discusses the material risks and opportunities so identified, and formulates policies on how to deal with such matters, measures, and targets. The details of the discussion by the Sustainability Committee are reported to the Board of Directors and finalized under the supervision of the board. Furthermore, we seek advice of outside experts, as needed, on risks related to business decisions, including decision-making regarding business strategies, and relevant departments conduct analysis and evaluation.

④Metrics and targets

•Metrics and targets for assessing climate-related risks and opportunities

Our group measures the volume of greenhouse gas emissions, which is a material risk related to environmental burdens, in accordance with the standards of the GHG Protocol (for the following scopes) as indicators for assessing climate-related risks and opportunities:

- Scope1: Direct emissions from use of such fuel as heavy oil and gas in the course of companies’ own production processes and business activities
- Scope2 : ndirect emissions from such activities as purchase of power and heat from other companies
- Scope3 : ndirect emissions from other reasons than Scopes 1 and 2 (emissions from the supply chain related to our group’s activities)

We have set targets for greenhouse gas emission reduction for the sum of Scopes 1 and 2 emissions.

•Greenhouse gas emission reduction targets and achievements

(a)Emission reduction targets and achievements

Our company will be committed to curbing greenhouse gas (GHG) emissions with the aim of reducing the sum of Scopes 1 and 2 emissions by 46% by fiscal 2030 and realizing carbon neutrality, including Scope 3 emissions, by fiscal 2050. In addition, in order to take into account the impact of GHG emissions generated due to changes in the business activities and domains, we will set emission reduction targets mainly for our group companies that have significant impact with the greenhouse gas emissions per amount of sales (emissions intensity) being considered as a reference index.

The Sixth Assessment Report (integrated report) published by IPCC in March 2023 has set a new target of lowering GHG emissions by 60% in 2035 compared to 2019 so as to limit the increase of the average earth temperature to 1.5°C or lower on pre-industrial levels. Our group intends to reconsider our 2035 GHG emission reduction targets and approaches to take to achieve them.

Our company’s achievements in greenhouse gas emission reduction (the sum of Scopes 1 and 2 emissions) are as shown in the table blow.

We currently adopt Category 6 (Business travel) and Category 7 (Employee commuting) for calculation of Scope 3 emissions and will consider including other categories for the calculation:

Company-wide emissions (unit: t-CO ₂)	(Reference) FY9/21	FY9/22
	Volume of emissions	Volume of emissions
Scopes1and2	691.506	660.688
Scope3	–	534.432

(b)Details of approaches

We expect that we can curb greenhouse gas emissions on a steady basis in FY9/23 as PRIVATECH INC., one of our group companies, relocated its headquarters to an office building that uses only renewable energy in January 2023 and another one of our group companies, SORD CORPORATION, is promoting its measures for reducing greenhouse gas emissions, such as upgrading the outdoor units installed in its headquarters to energy-saving units.

Furthermore, from FY9/24 onward, we will continuously consider emission reduction measures, such as continuous education and training aimed at fostering awareness of our group’s executives and employees, relocation of our offices to office buildings that use only renewable energy sources, change of our partner power companies, and our approaches to the carbon credit system.

2 CDP

In July 2022, we responded to CDP’s “Climate Change Questionnaire” for the first time with the period covered being FY9/21.

We were given a “C score,” which is the average score given to the companies responding to the questionnaire, and we will make continuing efforts to earn a higher score.



1 Development of human resources

Basic policy for human resources

The basic policy in the new medium-term management plan “PCI-VISION 2026” includes the execution of purpose-driven management and the shift to a highly profitable structure. We recognize that the most important management capital for following this policy without fail is human capital (= human assets), and in order to maximize it, we consider it is essential to take measures for transforming “personnel” into “human assets” from the short/mid-term business viewpoint and the long-term sustainability viewpoint.

While employees learn and grow by themselves through their respective tasks, our company and group companies have the mission to support employees making efforts to grow themselves regardless of age, gender, nationality, etc.

Ideal human resources

- Human resources who can act sincerely based on the high standards of ethics and values
- Human resources who possess expertise and improve it further with their own wisdom and ingenuity, inspiring people around them
- Human resources who keep taking on challenges in new fields with curiosity without being satisfied with the current situation

Activities and measures for developing human resources

Group-wide training

- Diffusion of our corporate ethos, course of conduct, etc.
- Diffusion of the basic policy for human rights (harassment, diversity, supply chain management, etc.)

Measures for developing human resources

- ① On-the-job training (OJT)
 - To acquire business knowledge through business operations while receiving instructions from superiors
 - To learn things through discussions for promoting business among group companies
- ② Training inside and outside our company
 - To acquire technical knowledge and skills
 - To acquire social adaptability, interpersonal and business skills
- ③ Support for personal development
 - To adopt training tools that can be freely selected by employees, to support personal development
 - To establish a system for promoting the acquisition of qualifications, to support personal development

Activities of the human capital working group

Our company has a strong sense of crisis over the environment where it is difficult to expand the workforce quantitatively,

due to the declining birthrate, the aging society, and changes in values about career, and recognizes the importance of measures for improving employees’ abilities (productivity) and motivation (engagement).

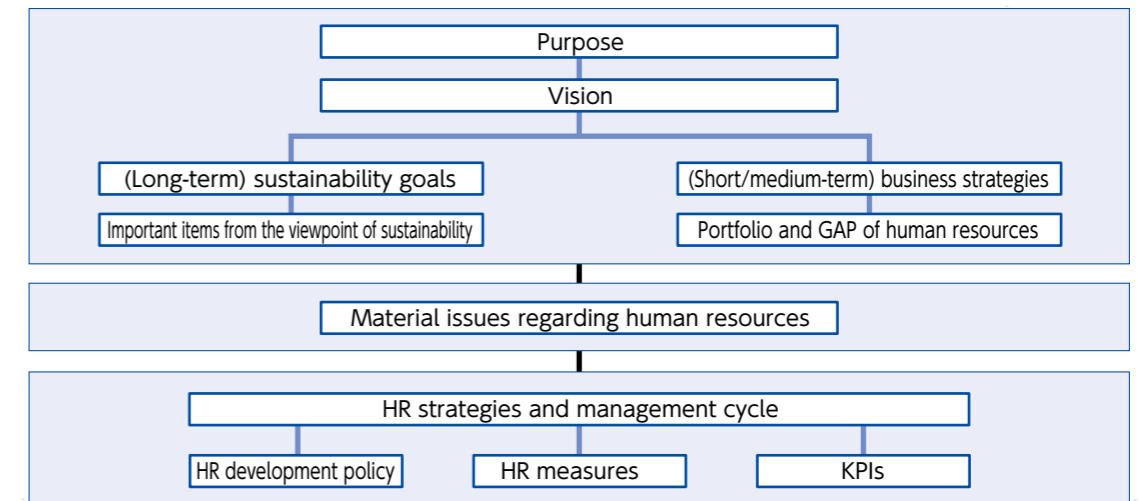
Accordingly, we established the human capital working group under the Sustainability Committee in January 2023, and strove to update the image of personnel linked with business strategies by interviewing and having discussions with the executives of our group companies. In addition, we will implement individual measures under the following basic policies, to solve issues visualized through group-wide activities, including the examination of the current situation through a survey on employees’ engagement targeted at all employees of our group.

Basic policies

- ① To develop a group of engineers to acquire cutting-edge technologies
- ② To develop a relationship manager to develop the ability to foster relationships with clients while being versed in them
- ③ Exchange of human resources among group companies to trigger innovation utilizing the diversity of knowledge and experience possessed by human resources of our group
- ④ To establish group-wide systems for education, training, and evaluation
- ⑤ To improve employees’ engagement

From now on, we will strive to unify the values of human resources in our group, including knowledge, skills, and mindsets, and work on the strengthening of the system for human capital management and DX of personnel affairs, to redefine the values for “HR strategies” and to achieve the management cycle of the strategies.

Schematic diagram of the sophistication of human capital based on the material issues about human resources



2 Initiatives for respecting human rights

Our company upholds the “respect for basic human rights, personality, and individuality” in “the course of conduct of the PCI Group.”

Everyone is born with basic human rights, which should be valued and respected. Our group considers that each employee’s stance of respecting human rights is the most important base for developing an in-company environment where employees can work comfortably, safely, and healthily without worry.

As a concrete measure, mainly the human capital working group has been identifying important risks related to human rights and enriching related measures, while conducting awareness surveys targeted at the executives of our group companies and listening to the opinions of external experts, since February 2023.

In June 2023, we produced the “PCI Group’s policy for human rights,” and positioned it as the supreme policy for human rights, and we will continue measures for developing a business base for respecting human rights. Regarding the due diligence on human rights, we plan to timely disclose it through our corporate website or the like.

3 Diversity & inclusion

Our group is developing workplaces where diverse human capital can exert their respective individualities and flourish while respecting one another in a fair environment and feel that their jobs are worthwhile.

As part of this effort, the companies subject to the Act on the Promotion of Women’s Active Engagement in Professional Life have already produced and executed action plans, but we will have discussions to produce and execute a group-wide action plan. Some of our group companies exchange opinions about working environments and corporate cultures through the exchange of female executives and employees. Considering the requests for clarification of career development plans regardless of gender and enrichment of education, we will increase opportunities for exchange through group-wide training.

For seniors, some of our group companies removed the upper limit of age for re-employment, to expand the environment where seniors can flourish by utilizing their accumulated knowledge, skills, and plenty of experience. We expect that seniors will be actively involved with the education and training of next-generation employees.

To fulfill the disclosure obligation that applies to financial statements from FY9/23, we calculated and disclosed the ratio of female managers, etc. in the past 2 terms. We are still at the stage of grasping the current situation, but we will set improvement goals and discuss measures for achieving them.

	FY9/21	FY9/22
Ratio of female managers	3.2%	4.0%
Ratio of male employees who have taken childcare leave	20.0%	38.9%

4 Employee engagement

“Engagement” refers to the level to which each employee is willing to contribute voluntarily and proactively toward their organization and work. It is considered to be one of the essential aspects for maximizing human capital, along with employees’ capabilities.

The increasing competition to acquire human capital due to the widespread adoption of diverse working styles and the serious shortage of human resources in the workforce market has impacted the human capital essential for our group’s future growth substantially through recruitment and quitting. From here onward, we will strengthen engagement or improve job satisfaction, which will prevent employees from quitting and promote recruitment.

In order to increase engagement, we believe that it is essential to implement the initiatives to provide employees with fulfilling “hands-on experience” continuously in the aspects of work, people, and organizations, while supporting their personal growth. One of our initiatives is to provide “hands-on experience” opportunities, such as an employee stock ownership system (20% of the contribution amount will be granted as incentives), in order to promote loyalty and commitment toward actively engaging in the growth of our group.

Furthermore, as part of the working group’s activities, an engagement survey was conducted in April 2023 among our group’s employees to understand the current situation, which was then visualized in the form of engagement scores. Although the information is for reference only with no data accumulated as an initial survey, we received valuable hints on the aspects essential for improving engagement and improvement measures through analysis of aspects, with their organization, environment, and individuals as key drivers.

The results of this current situation analysis have been provided as feedback to the management of each group company, and we are currently considering improvement measures based on the characteristics of each company. We believe it is essential to repeat the trial-and-error process for improvement measures over time in order to create a sense of fulfillment in the “hands-on experience” for our group’s employees.

We will actively promote the spread of our purpose, encouraging self-reliance among employees and focusing on two-way communication in order to build a relationship between employees and our group for co-creating corporate value.

5 Improving the workplace environment

In order to ensure that our diverse human capital is fully able to exert their respective abilities, we believe that it is imperative to create an environment in which all employees can work with peace of mind, enthusiasm, and a healthy state of mind and body. We are committed to creating a better working environment through the following initiatives.

□Initiatives for health care

- Promoting regular health check-ups and physical examinations for employees over a certain age
- Conducting consultations with industrial physicians/periodic mental health check-ups (for some group companies)

□Work-life balance

- Preventing long working hours, reducing overtime and working hours on holidays
- Promoting annual paid leaves and encouraging employees to take childcare leave/shortened working hours for childcare
- Conducting training and establishing a consultation service to prevent all types of harassment
- Promoting flexible working styles, such as telecommuting (for some group companies)
- Streamlining business operations through the promotion of DX

6 Social contribution activities (to fulfill our CSR)

By utilizing our networks and accumulated knowledge, we continuously conduct social contribution activities as a listed company.

Support for “Digital Content Project,” a research activity of “Mathematical Science Research Club” of Rikkyo Ikebukuro Junior & Senior High School (from April 2017)

We support the Mathematical Science Research Club of Rikkyo Ikebukuro Junior & Senior High School. This club is a cultural one that takes on challenges in various fields, including PCs, programming, mathematics, video game production, the Internet, and social science. It has produced some splendid results, including the receipt of an award at the “International Collegiate Virtual Reality Contest” hosted by IVRC and the successive receipt of awards at “Nikkei STOCK League.” Our group will continue our active support to enrich the education of future generations and research activities, improve the quality of students’ lives, and help develop personnel specializing in science and technology.



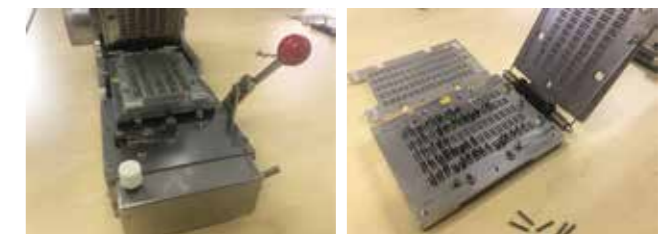
●Website of the Mathematical Science Research Club

https://ikebukuro.rikkyo.ac.jp/club/cultural/math_science.html

Support for the braille business card project (from April 2021)

Agreeing with the “braille business card project” for embossing business cards with braille, which is promoted by Cocoro Skip, an office for continuous employment support B (a welfare office), some employees of our group use braille business cards voluntarily.

We support this project, by requesting visually impaired people to emboss business cards with braille, promoting our group companies to use braille business cards, and disseminating the information on the project with news releases, videos, etc.



●Official website of Cocoro Skip, an office for continuous employment support B

<https://www.tenji-meishi.net/>

Governance

1 Basic views on corporate governance

Our group is constantly engaged in activities to continuously improve the corporate value, and aims to realize our corporate ethos: “We pursue the happiness of all of our employees and contribute to the development of society through the improvement in customer satisfaction.” To this end, we believe that it is an important responsibility of our company to our stakeholders to build and operate a sound and highly transparent business management system and ensure that corporate governance functions effectively. At the same time, we are constantly striving to ensure thorough compliance and strengthening internal control on a daily basis.

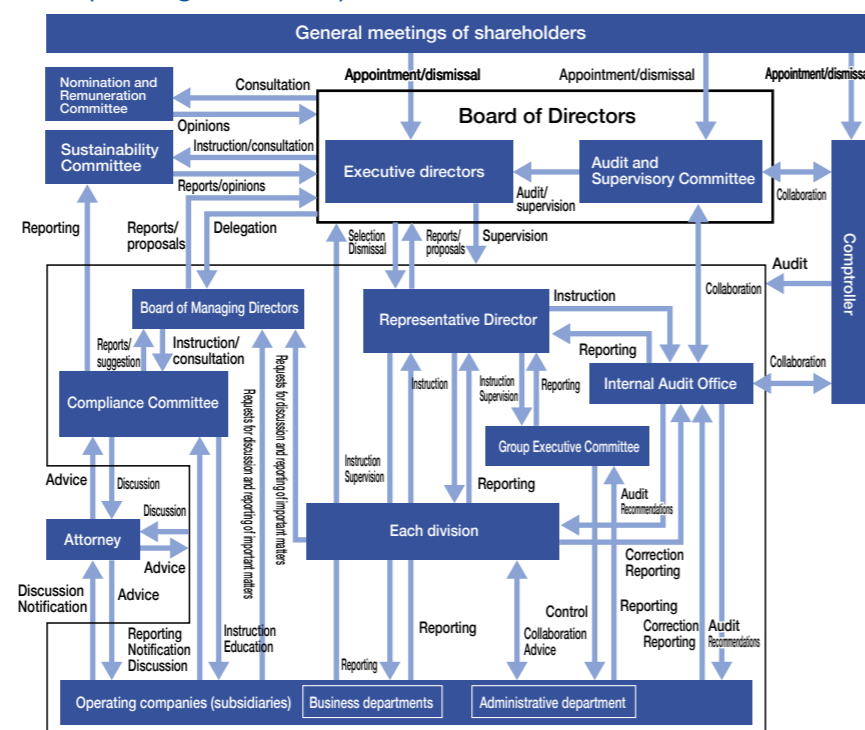
2 Corporate governance system

The Board of Directors is composed of ten directors, that is, 6 directors (including 1 outside director) (excluding those who are members of the Audit and Supervisory Committee) and 4 directors who are members of the Audit and Supervisory Committee (all outside directors). In addition, in order to ensure that corporate governance functions well at our company, we implement the following measures: (1) half of the directors, i.e., five directors, are independent outside directors; (2) all Audit and Supervisory Committee members are appointed from outside directors; and (3) the Nomination and Remuneration Committee consisting of a majority of outside directors has been established. Through these measures, the Board of Directors monitors management from a fair and neutral standpoint, while ensuring prompt decision-making and flexible business execution.

[Diversity of members of the Board of Directors]

Ratio of outside directors:50% (5 out of 10)
 Ratio of female directors:20% (2 out of 10)
 Age composition:2 in their 40s, 3 in their 50s, 3 in their 60s, and 2 in their 70s
 Major professional backgrounds:5 from information and telecommunication, 2 from finance (including M&A), 1 from public administration, 1 lawyer, and 1 certified public accountant

Corporate governance system



Major Committees and Meetings

Board of Managing Directors <ul style="list-style-type: none"> Deliberates important management matters within the scope delegated by the Board of Directors, discusses and reports the results of such matters to the Board of Directors. 	Nomination and Remuneration Committee <ul style="list-style-type: none"> Deliberates and reports on proposals for the general meeting of shareholders regarding the appointment and dismissal of directors of our company and its subsidiaries, as well as on executive compensation and other matters. Discusses succession plans.
Audit and Supervisory Committee <ul style="list-style-type: none"> Supervises directors' execution of duties and inspects important documents in accordance with audit regulations, audit standards, and audit plans. 	Sustainability Committee <ul style="list-style-type: none"> Establishes basic policies on sustainability, identifies material issues, promotes and monitors various measures, and educates and trains employees on sustainability. Identifies, analyzes, and evaluates management risks, and examines measures to avoid or mitigate them.
Compliance Committee <ul style="list-style-type: none"> Develops and maintains compliance systems, formulates rules and guidelines, and educates and trains employees on compliance. Serves as an internal reporting desk for legal violations, etc. 	Group Executive Committee <ul style="list-style-type: none"> Manages group performance and confirms progress in business strategies. Shares important matters related to the entire group. Considers creating synergies among group companies.

3 Executives' remuneration

Remuneration for directors of our company (excluding those who are members of the Audit and Supervisory Committee) consists of “basic remuneration (fixed remuneration),” “performance-linked remuneration (bonus)” linked to company performance in each fiscal year, and “stock compensation” as an incentive to achieve sustainable growth of our group and increase corporate value over the medium to long term. Remuneration for each director is determined by the Board of Directors after deliberation and consideration by the Nomination and Remuneration Committee.

Our approach/basic policy on directors' remuneration

- It must be sufficient to motivate directors to achieve medium to long-term improvement in corporate value.
- Compared to other companies of the same size, it should be sufficient to attract and retain excellent human resources.
- It should comply with the roles and responsibilities of each director.
- It should incorporate a mechanism to motivate the achievement of targets for each fiscal year (however, care should be taken to avoid an excessive focus on short-term performance).
- The structure should be fair, transparent, and reasonable.

Overview of the executive remuneration system

- Remuneration composition and proportion

The remuneration for directors (excluding those who are members of the Audit and Supervisory Committee) for FY9/22 was composed of basic remuneration, which accounted for 82%, performance-linked remuneration (bonus), which accounted for 10%, and stock compensation, which made up 8%. In the medium term, we are considering setting a fixed target of basic remuneration of 75%, performance-linked remuneration (bonus) of 15%, and stock compensation of 10% in order to provide appropriate incentives to improve corporate value over the medium to long term.

- Policy on basic remuneration

Basic remuneration for directors is determined in accordance with the “Detailed Regulations Concerning Remuneration for Directors,” taking into consideration the scope of each director's responsibilities, performance, years of experience, and other factors.

- Policy on performance-linked remuneration (Effective from FY9/23)

Performance-linked remuneration is paid as a bonus based on the group's consolidated performance for a single fiscal year. The performance indicators are consolidated net sales, consolidated operating income, and consolidated EBITDA margin. It is calculated based on the amount obtained by multiplying the monthly basic remuneration of each director by a certain performance KPI (a pre-determined index based on planned values and actual results).

- Policy on stock compensation (Effective from FY9/23)

For the purpose of providing medium to long-term incentives for diligent services, we provide stock acquisition rights as stock options and transfer-restricted stock compensation. The indicators are market capitalization, ROE, and ESG-related indicators (environment and human capital).

4 Evaluation of effectiveness of the Board of Directors

We are working to strengthen the functions of the Board of Directors with the aim of strengthening our competitiveness as a company through prompt decision-making while enhancing management transparency and fairness. Since 2016, we have been evaluating the effectiveness of our Board of Directors and have made improvements in areas where there are issues.

■ Evaluation method

Once a year, each director conducts a self-evaluation on a 5-point scale in the following five areas (28 items). The following year, the Board of Directors will discuss improvement measures, focusing on those items for which the average self-evaluation score was less than 3 (average).

Items	Topics
① Institutional design, composition, and qualifications of the Board of Directors	Institutional design, establishment and operation of voluntary committees, knowledge, ability and experience
② Roles and responsibilities of the Board of Directors	Formulation of management policies and management strategies that serve as the basis for medium to long-term improvement of corporate value
③ Deliberations and operations of the Board of Directors	Vitalization of deliberations by the Board of Directors, information acquisition, support system, and utilization of outside directors
④ Relationship between the Board of Directors and senior management	Appointment and dismissal of senior management, compliance, risk management, reporting and supervision of execution
⑤ Director training, succession planning, and stakeholder relations	Training, succession planning, addressing social and environmental issues, addressing the diversity of officers and employees, enhancing information disclosure, constructive dialogue with shareholders

■ Items requiring improvement in the effectiveness evaluation for FY9/22

Items to be improved	Status of improvement efforts
① Active discussion on strategy and mid-term management plan required	Formulated our group's long-term vision after discussions at the Sustainability Committee and Board of Directors.
② Insufficient succession plans	The Nomination and Remuneration Committee (new structure) started concrete activities.
③ Emphasis on diversity initiatives	The human capital working group was established to reorganize human resource development policies and policies for ensuring diversity.
④ Clarification and strengthening of IR strategy	Strengthened IR office members under the direct control of top management

5 Succession plan

In order to achieve sustainable growth and increase the corporate value of our group, we regard the succession plan of the Chief Executive Officer as one of the most important management issues. In December 2022, the Nomination and Remuneration Committee began considering a succession plan and established “personnel requirements” for successors, which consist of the following aspects: profile (personality, attitude, and behavior), competence (insight, ability, and expertise), experience, and achievements. Going forward, the Nomination and Remuneration Committee will select candidate executives and employees within our group who are highly likely to meet the “personnel requirements” and begin formulating a specific training plan.

In selecting the Chief Executive Officer, the Board of Directors, based on the report of the Nomination and Remuneration Committee, will fully examine the candidate's character, insight, and achievements, and will also consider changes in the business environment at the time to make the decision from a highly transparent and fair perspective.

Message from an outside director



Taneki Ono
Outside Director
Chairperson of the Nomination and Remuneration Committee

Key points
Nurturing the younger generation
Fostering corporate culture

Greeting as a newly-appointed outside director

I am Ono, a newly-appointed outside director. I completed LL.M. and MBA courses in the United States and was admitted to the New York State Bar Association. Since then, I have been involved in corporate M&A and finance matters for a long time at law firms and investment banks in the United States and Japan. As a lawyer and a banker in an investment bank, I have always valued working from the client's perspective. It means understanding our clients, understanding their needs, and taking a long-term view of their interests. I have also been trying to train the younger generation. A person can only stay with the same company for about 30 years. In order for the company to continue to grow under such constraints, it is necessary to foster a corporate culture, and to train the people who will carry on that culture.

I have been appointed as an outside director who is not a member of the Audit and Supervisory Committee. I recognize that the role of an outside director is to supervise and provide advice to the management team rather

than to determine the direction of management. Therefore, as one of the outside directors, it is natural for me to play an objective monitoring role, but as our group continues to grow through M&A, I would also like to use my knowledge and experience in examining management strategies. Although it may be a little outside of the norm for an outside director, I participate in discussions with internal directors in the process of formulating management strategies and medium-term management plans with this in mind. I think that the M&A of our group so far has been successful as “additions” that bring companies and enterprises together. From now on, I believe that a “multiplicative” M&A strategy will be necessary, including not only the pursuit of synergies among group companies, but also the exchange of human resources and the joint development of technologies.

On April 1, 2022, Mr. Yokoyama was appointed as President. Amid the whirlwind of drastic changes, our company has entered its second founding period. Our group is a corporate group with a short history. Perhaps because of this, I have the impression that we have not yet developed a single culture as the PCI Group. In order to develop our group in its second founding period, we should not think that “there is no precedent for something like this.” Rather, it is important to create a culture in which people in any position can easily propose new ideas, consider them, incorporate them, and change them, and to share this culture with all employees. The speed of change in the information service industry, to which our group belongs, is very fast, and we need to be ahead of the “times” in order to create a completely new market. To that end, we need to plant new seeds by assigning human resources with flexible minds in the community of the so-called Generation Z, who will become the main consumers and the core of society 10 to 20 years from now, and to grow them by combining the technologies and ideas that this community embraces. As an outside director, I would like to support President Yokoyama in creating such a culture and developing human resources by making the most of my knowledge and experience accumulated so far.

In addition, dialogue with investors is extremely important. I believe that true IR is not merely explaining financial figures, but also communicating where we are headed as a corporate group, what we are trying to achieve, and what our current weaknesses are and how we will overcome and strengthen them. While listening to the opinions of our stakeholders, I will do my best for the development of our group.

Dialogue with independent outside directors

Toward the practice of sustainability-oriented management

Hirokazu Ohira
Outside Director
(Full-time Audit and Supervisory Committee Member)

Akiko Takahara
Outside Director
(Audit and Supervisory Committee Member)



How would you rate our company's governance system?

Takahara: Since our listing on the Mothers of Tokyo Stock Exchange in 2015, we have been working to improve and strengthen our corporate governance system. In 2016, we introduced an evaluation of the effectiveness of the Board of Directors, and in 2020, we established the Nomination and Remuneration Committee. The committee is highly independent from the executive side of management, consisted of a majority of independent outside directors and with an independent director serving as chairperson. The Nomination and Remuneration Committee has been discussing matters such as the appointment and dismissal of directors including those from group companies, compensation systems, and the skills matrix. President Yokoyama assumed office in April 2022, and this appointment was also determined after thorough discussion and consideration by the Nomination and Remuneration Committee.

Ohira: Four of us, including myself, were newly appointed as independent outside directors in December 2022, and each of us has different expertise and experience. I would like to contribute to further enhancement of the effectiveness of governance by proactively expressing my opinions on medium to long-term corporate strategies and other issues from an independent perspective in response to the rapid changes

in the business environment, such as sustainability issues and information technology.

Takahara: The Ministry of Finance and the Financial Services Agency, where Mr. Ohira has been involved in financial administration for a long time, are among the ministries and agencies that have promoted corporate governance reform. From your perspective, Mr. Ohira, how would you rate our governance system?

Ohira: I was in charge of financial inspection of financial institutions at the Financial Services Agency and have discussed and proposed improvements in corporate governance and risk management systems with people from financial institutions. Based on this experience, I think it is safe to say that our governance system is currently at a satisfactory level.

First of all, I believe that sufficient independence is ensured. The effectiveness of the Board of Directors is also thoroughly evaluated, and efforts are being made to strengthen the functions of the Board of Directors. In addition, we are working to strengthen the so-called "three-way audit" by the Audit and Supervisory Committee, the auditing firm, and the Internal Audit Office. Overall, I believe that we have established an above-average governance system.

Takahara: The ideal governance system varies from company to company, and we will determine the most appropriate structure at that point in time through careful discussions as directors. In the December 2022 election, four new independent outside directors were appointed, including Mr. Ohira. In making these appointments, we have worked to enhance the diversity of the Board as a whole based on a skills matrix.

Ohira: I believe that the functions of the Board of Directors have been significantly strengthened. First, half of the board members are now independent outside directors. Independent outside directors with diverse knowledge, abilities, and backgrounds have been appointed, and in terms of gender, the ratio of female directors is now 20%. Independent outside directors speak out at the meetings of the Board of Directors from their diverse perspectives.

In addition, for the first time this fiscal year, we have appointed one independent outside director who is not a

member of the Audit and Supervisory Committee. Going forward, we intend to utilize the power of external personnel in order to bolster our expansion into new business areas in the future. I believe that we have strengthened the diversity and functions of the Board of Directors in terms of both supervision and execution.

On the other hand, you have been reappointed to maintain continuity in your role as an independent outside director. In the future, it may be necessary to consider matters such as the appropriate term of office for independent outside directors.

Discussions are deepened regarding monitoring functions related to M&A.

Takahara: I am encouraged by the addition of Mr. Ono, who has been involved in many M&A transactions at domestic and overseas financial institutions. As a company that has grown mainly through M&A, I believe that our Board of Directors has put in place a system to ensure that we are fully prepared to make decisions regarding M&A. However, I also feel that there are issues to be addressed in terms of post-M&A supervision. Currently, we simply track post-merger sales and profits. It is important to implement specific and detailed PMI and confirm the effects of the integration using key performance indicators (KPIs). As an independent outside director, I have strongly suggested this point. Recently, the executive directors have discussed this point, and have institutionalized a new system to strengthen scrutiny of plans and objectives at the time of M&A, and to monitor post-M&A activities. I think this is an important point.

Ohira: In a related matter, it may be necessary to check group corporate governance. Institutionally, our company has established group company management regulations for the management of group subsidiaries. In practice, we have adopted a prior consultation system that requires prior reporting on management strategies, management plans, business portfolio strategies, and executive and management personnel affairs of group subsidiaries. In addition, in order to create synergies, the presidents of our group subsidiaries have been appointed as executive officers of our company.

While there is no problem with the current situation, it may be necessary to strengthen the system to ensure that independent outside directors supervise properly.

What are your thoughts on our group's sustainability-oriented management?

Takahara: Since the establishment of the Sustainability Committee in July 2022, we have been swiftly addressing sustainability issues. This is due to the strong leadership of President Yokoyama. The Sustainability Committee is an advisory body directly under the Board of Directors and is chaired by President Yokoyama. The committee includes our internal directors and representatives of our group subsidiaries and discusses risks and opportunities in a wide range of fields. We, independent outside directors, are also informed of the activities of the Sustainability Committee. As an independent outside director, I will continue to provide my strong support.

Ohira: In addition to the so-called sustainability issues, we are considering a wide range of management risks, such as the global economy, geopolitical situations, and technological trends.

Takahara: Issues such as climate change not only have a direct impact on management, but also have a secondary ripple effect on management via their impact on the global economy and geopolitical situations, which that cannot be ignored. Based on this understanding, the Sustainability Committee now collectively manages management risks that were previously managed by the Compliance and Risk Management Committee. We believe that our group will further strengthen the system of risk management and consideration of countermeasures through the Sustainability Committee.

Ohira: Disclosure of non-financial information is another important issue. It is important to disclose information necessary for investment decisions in a timely and easy-to-understand manner. With regard to human capital and diversity, which are required to be disclosed in securities reports, we have established a human capital working group under the Sustainability Committee to deliberate on the direction of human capital strategy and visualization of human capital that will contribute to sustainable growth and mutual understanding with investors, as well as to consider how to address due diligence on human rights.

We would like to thoroughly audit and supervise sustainability-oriented management from the perspective of enhancing corporate value.

Formulation of next medium-term management plan

Takahara: Until now, our medium-term management plans have focused on sales and profit targets. The next medium-term management plan is being developed based on a long-term vision and is a three-year plan for moving toward our "ideal state" in the future.

Ohira: I appreciate the fact that it is a framework that clarifies not only performance targets, but also the overall three-year policy, investment plans and fund allocations. We, independent outside directors, also participate in the discussions, incorporating outside perspectives. We believe that the plan will be easy to understand, including the establishment of KPIs, and will have a strong narrative as we incorporate this framework into concrete plans. I hope that "PCI-VISION 2026" will be steadily implemented as the beginning of the second founding period.



6 Internal control

In order to comply with the “systems for ensuring proper business activities” set out in the Companies Act and the Regulations for Enforcement of the Companies Act, the Board of Directors has established a “Basic policy regarding the development of an internal control system” (the latest revision on November 24, 2022) and the internal control system is currently operated in accordance with this basic policy.

In addition to this, we have formulated “Regulations for the management of group companies” and we have been engaging in necessary initiatives as a corporate group by discussing and managing important matters which significantly impact the whole group based on a report by the concerned group company.

7 Compliance

As we recognize that thorough compliance is indispensable for the existence and continuance of an enterprise, we distribute “KOKORO” (a credo card) noting down our “corporate ethos” and “Course of Conduct of the PCI Group” to all group employees and have them carry it at all times.

■Course of Conduct of the PCI Group

①Compliance with relevant laws and ordinances	②Provision of services truly beneficial to our customers	③Fair and just corporate activities that can fulfill accountability
④Appropriate disclosure of management information	⑤Respect for fundamental human rights as well as personality and individuality	⑥Contribution to society
⑦Endeavor to use new technologies	⑧Respect for intellectual property rights	⑨Thorough confidentiality and information management

■Compliance system

We have set up the Compliance Committee chaired by the President and Representative Director and we hold its meetings every quarter.

The Internal Audit Office serves as a secretariat for this committee, which is composed of the committee chairperson, directors in charge of compliance and risk management, responsible managers of each group company and our attorney. The committee deliberates on incidents that have occurred within our group, develops and maintains the compliance system, formulates regulations and guidelines, educates employees, etc.

■Education regarding compliance

We organize an e-learning compliance training for all group executives and employees every year. The training covers not only general laws and ordinances pertaining to corporate activities, but also a wide range of topics such as labor management and harassment.

■Whistle-blowing system

In case of witnessing an act that violates laws, regulations, etc., instructions or implications toward other officers or employees to perform an act which violates laws, regulations, etc., or tacit approval of an act which violates laws, regulations, etc. by other officers and employees, it must be promptly reported as set out in our “Regulations regarding compliance, response to accidents, etc.” All group executives and employees have been acquainted with available resources, such as a report to an external legal counsel. Moreover, we are striving to prevent compliance violations and harassment by further arranging the protection system for reporting and consulting parties, such as consideration toward the anonymity of reporting and consulting parties.

8 Risk management

■Risk management system

The Sustainability Committee of our group informs and reports on policies, measures, initiatives, etc. regarding challenges pertaining to our group’s sustainability activities as instructed and advised by the Board of Directors.

■Seeking out, grasping, evaluating and addressing risks

Having established “Sustainability Committee regulations,” our Sustainability Committee seeks out and grasps risks concerning all management aspects of our group, analyzes and evaluates them, and discusses necessary measures every year.

■Major risks

Major risks which have been considered to have the possibility of impacting the financial situation, management results, etc. of our group as of the end of September 2022 are outlined below. Further details can be found under “Business risks, etc.” in our securities report.

Item	Outline of risks	Countermeasures
(Related to the business environment)		
①Technology innovation	Risk of delay in catching up with changing needs of clients and new technologies Risk of the popularization of unexpected new technologies and new services	To grasp technology trends To research next-generation technologies
②Demand for and supply of semiconductors	Risk of the significant shrinkage of the semiconductor development market due to changes in the management policies and revisions of the cost structure of semiconductor manufacturers	To constantly grasp trends of demand from clients To optimize the business portfolio
③Exchange rate fluctuations and procurement of parts	Risk of rise in prices of parts we procure due to fluctuations of exchange rates	To thoroughly reduce costs To hedge risks through exchange contracts
(Related to business contents)		
④Differences from estimates Delayed delivery Post-delivery defects	Risk of actual costs exceeding estimates Risk of failing to finish work and make a delivery by a deadline Risk of causing damage to our clients due to system defects arising from our errors	To thoroughly seek out risks and devise countermeasures beforehand To thoroughly monitor projects To build a system for ensuring quality
⑤Securing and training of personnel	Risk of failing to secure suitable personnel Risk of losing excellent core personnel	To engage in systematic recruitment activities To systematically engage in education and training
(Related to business system)		
⑥Health and safety of the employees	Risk of consecutive overtime work or work on holidays to strictly observe quality and deadlines	To thoroughly manage working hours To alert employees about excessive overwork
⑦Acquisition of enterprises Strategical alliances	Risks in case where unrecognized liabilities exist at the time of acquisition of an enterprise Risk of the alliance failing to achieve expected results	To enhance due diligence To enhance the monitoring of the progress of plans
(Other)		
⑧Investment securities held by our company	Risk of the decline of the substantial value of investment securities held by our company	Careful examination of the progress of business plans
⑨Natural disasters, etc.	Risk stemming from natural disasters such as earthquakes, fires, war, terrorism, and the spread of novel influenza	To adopt a system for ascertaining safety To decentralize data storage sites
⑩Climate change	Risk of serious natural disasters caused by climate change Risk of failing to gain sufficient understanding regarding the initiatives toward countermeasures against climate change from our stakeholders Risk stemming from response to the enforcement of new laws, regulations and ordinances concerning countermeasures against climate change	To continuously analyze climate change-related risks based on the TCFD Recommendations To grasp trends in environment-related laws, regulations, etc.
⑪Various pandemics	Risk of the onset, spread, and prolonged epidemic of an infectious disease	To adopt a telecommuting system To recommend online meetings

9 Information security

We have established a “Basic policy on information security” and all executives and employees of our group comply with this policy, take all possible measures to ensure information security and endeavor to appropriately handle, manage and maintain information assets.

■Basic policy on information security

1. Thoroughly protect and manage information assets
2. Work toward the elevation of literacy concerning information security
3. Appropriately address incidents concerning information security
4. Thoroughly comply with laws and regulations
5. Continue to improve and revise the policy

■Management system and maintenance

In case an incident concerning information security occurs, the Compliance Committee will receive a report and promptly devise appropriate measures. Moreover, we have taken physical countermeasures such as applying appropriate cybersecurity solutions in order to prevent unauthorized access and malware in regard to e-mails and the Internet environment.

■Employee education

We organize training sessions regarding information management and information security in the form of e-learning for all group’s executives and employees every year. The training consists of the confirmation of our group’s rules, education concerning information leakage risk and impact and the prevention thereof, case studies of accidents that have occurred outside our group, etc.

10 Strategically held shares

■Policy concerning strategic shareholding

Our basic policy allows us to hold listed shares following a sufficient consideration of whether a growth in sales and profit and elevation of the corporate value of our group can be expected as a result of acquiring these shares.

■Inspection of the propriety in shareholding

Regarding the judgement regarding the acquisition and disposition of listed shares, we comprehensively evaluate whether it is necessary for our company’s growth, considering the performance, dividends, stock value trends, etc. of the concerned enterprise, and the director in charge makes an inspection every year for every individual stock while taking into account the possibility of another effective way of fund utilization, etc., following which the Board of Directors deliberates and passes the decision.

In November 2022, the Board of Directors confirmed the shareholding objective for three kinds of stocks held by our group and deliberated on whether it is reasonable to continue holding them.

■Criteria for the exercise of voting rights regarding strategically held shares

Voting rights regarding strategically held shares are appropriately exercised following a confirmation of whether the proposed matter will contribute to the elevation of the concerned enterprise’s corporate value in a medium- to long-term and also whether it will contribute to the maintenance and elevation of our group’s corporate value.

Listed shares and their trading names: As of the end of FY9/22

Trading name	Shareholding ratio	Amount on the consolidated B/S	Shareholding objective
Restar Holdings Corporation	1.2%	675 million yen	Capital and business alliance, comprehensive partnership for sale and technology
AGS Corporation	0.6%	64 million yen	Promotion of the product sale business
HCS Holdings Co., Ltd.	1.7%	52 million yen	Consideration of a tie-up in the ERP field of the Engineering Business
Total	—	792 million yen	

Situation concerning the holding of non-listed shares: As of the end of FY9/22

Number of shares held	Shares of 19 companies	Amount on the consolidated B/S	330 million yen
Shareholding objectives	<ul style="list-style-type: none"> Promotion of use of ICT and AI in plant factories Promotion of the Cybersecurity Business Acquisition of blockchain technologies AI support of decentralized federated learning 	<ul style="list-style-type: none"> Promotion of the HRTech Business Commission of offshore software development in Vietnam Reinforcement of business partnerships 	

11 Dialogue with shareholders

We recognize that deepening the understanding of our shareholders through proactive information disclosure is an important initiative for elevating our corporate value. We shall give a conscientious explanation on our company’s performance, management situation as well as future growth strategies including not only favorable aspects, but also challenges which we recognize, through posts on our company website and individual interviews and at the general meetings of shareholders and financial result briefings.

■IR system

We have set up an IR Division in the Management and Planning Headquarters, which coordinates all kinds of matters pertaining to IR. The division flexibly cooperates with the Management and Planning Division, Strategy Promotion Division, Finance and Accounting Division as well as Management and Planning Departments of our group companies and strives for accurate and appropriate information disclosure. As a general rule, the President and Representative Director takes the stage at financial result briefings to give the explanation.

We share the opinions and questions which we have received from our investors through dialogue at the meetings of the Board of Directors and the Group Executive Committee.

■Future IR policy

We will proactively reach out to institutional investors and analysts with our IR activities. Apart from performance, we will also explain our growth strategies, policies and measures toward the improvement of capital profitability in a way that is as easy to understand as possible. Furthermore, we will restart face-to-face company briefings for individual investors which were difficult to hold during the coronavirus crisis.

Main initiatives in FY9/22






Method	Times held	Person in charge	Outline
Financial result briefings for institutional investors and analysts	Three times	Representative Director	Briefings on performance and business initiatives
IR interviews with institutional investors and analysts	Many	Representative Director	Individual interviews with institutional investors and analysts
Online company briefings for individual investors	Seven times	Representative Director	Presentations at IR seminars, media appearances
Publication of a booklet for shareholders	Once	IR team	Publication of “Business Report” (December)
Planning and operation of our IR information site	As required	IR team	Information disclosure on our company website

Main opinions and questions from our investors in FY9/22

Opinion/question	Summary of our answer
Has there been an impact of exchange rate fluctuations or the lack of semiconductors (difficulty in procurement)?	There has been an impact on procurement of components at SORD.
What impact and outcome has the acquisition of SORD had?	Net sales were about 9 billion yen as expected, but profit and profit margin fell short of our forecasts due to abrupt exchange rate fluctuations and rise in material prices. However, there are significant expectations for the synergy of software which is our group’s forte and SORD’s hardware, which will lead to favorable results in future.
What is your policy for addressing the high SG&A ratio?	We will strive to reduce SG&A despite the expenses stemming from the amortization of goodwill by streamlining back-office divisions, reallocating staff, etc.
Is there any risk of impairment loss of goodwill?	All subsidiaries are generally performing well and there is no concern about such a risk.
Has the alliance with Restar Group brought any positive results?	There has been a positive effect on procurement at SORD. In addition, there have been accomplishments such as participation in R&D projects and recording of sales through business opportunities introduced by Restar Group, etc.
What is your policy for future M&A?	Our policy is to continue to proactively engage in M&A with enterprises where synergy with our existing group companies can be sufficiently anticipated in order to ensure opportunities for the non-continuous growth of our company.
What is the situation like in regard to lack or excess of personnel and recruitment activities?	We suffer from a chronic lack of personnel. While we have succeeded in recruiting a certain number of new graduates, we struggle to secure capable human resources.

List of directors and executive officers (as of the end of March 2023)

Executive officers

Director					
Name	Toyomi Amano	Kunio Yokoyama	Yasuhiro Horibe	Naohiro Iguchi	Kazuya Sugizono
Post	Representative Director and Chairperson	Representative Director and President	Senior Managing Director and Senior Executive Officer in charge of business strategies	Director and Executive Officer in charge of the Management and Planning Headquarters	Director and Executive Officer in charge of the Administration Headquarters
Career summary (our company)	Apr. 2005: Established our company and took up a post as Representative Director and President Apr. 2022: Representative Director and Chairperson (incumbent)	Apr. 2021: Adviser Dec. 2021: Director Apr. 2022: Representative Director and President (incumbent)	Dec. 2020: Managing Director Dec. 2022: Senior Managing Director (incumbent)	Oct. 2009: Chief of Management and Planning Division Dec. 2015: Director and Head of the Administration Headquarters Feb. 2017: Director and Head of the Management and Planning Headquarters (incumbent)	Apr. 2008: Chief of the Finance and Accounting Division Dec. 2020: Director and Head of the Administration Headquarters (incumbent)
Career summary (our group)	Sep. 2012: Representative Director and President of PCI Solutions INC. Dec. 2019: Representative Director and Chairperson of PCI Solutions INC. (incumbent)	Dec. 2021: Director and Chairperson of SORD CORPORATION (incumbent)	Dec. 2019: Representative Director and President of PCI Solutions INC.	Jan. 2021: Auditor of SORD CORPORATION (incumbent)	Sep. 2018: Auditor of PRIVATECH Inc. (incumbent)
Cumulative number of years in office as a director (at the time of expiration of the current term of office)	18	2	3	8	3
Career summary (outside our group) Enterprises/groups for which the director worked previously Enterprises/groups for which the director works concurrently	Managing Director of NCR Commerce Japan Ltd.	Managing Executive Officer of Sumitomo Mitsui Banking Corporation Representative Director and CEO of Sumitomo Mitsui Asset Management Co., Ltd. Representative Director, President, and Executive Officer of Japan Post Co., Ltd. Director of Japan Post Holdings Co., Ltd.	Executive Officer of Mitsubishi Research Institute, Inc. Outside Director of JDA Software Japan Co., Ltd., SAP Japan Co., Ltd., and Tecnos Japan Inc. (incumbent)	Profit Cube, Inc.	Hiroishi Accounting Office Three F Co., Ltd. Profit Cube, Inc.
No. of shares held by the director (including those of the executives' shareholding association) (as of the end of Mar. 2023)	17,374	4,939	8,896	41,949	21,278
Attendance at meetings of the Board of Directors (FY9/22)	Attended all of the 17 meetings (100%)	Attended all of the 17 meetings (100%)	Attended all of the 17 meetings (100%)	Attended all of the 17 meetings (100%)	Attended all of the 17 meetings (100%)
Attendance at meetings of the Audit and Supervisory Committee (FY9/22)	—	—	—	—	—

Committees, etc. to which the director belongs	Nomination and Remuneration Committee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Board of Managing Directors	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Sustainability Committee	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Compliance Committee	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Group Executive Committee	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

■ : (Committee) chairperson, □ : Member, ◇ : Participation as an observer

Skill matrix	Business administration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Business strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	IT/digital technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	New business/M&A	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Group management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Finance/accounting/tax affairs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Governance/compliance/risk control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

					
Name	Taneki Ono	Hirokazu Ohira	Akiko Takahara	Masahiro Nomura	Takako Sakae
Post	Outside director *Independent executive	Outside director (Audit and Supervisory Committee member) *Independent executive	Outside director (Audit and Supervisory Committee member) *Independent executive	Outside director (Audit and Supervisory Committee member) *Independent executive	Outside director (Audit and Supervisory Committee member) *Independent executive
Career summary (our company)	Dec. 2022: Outside director	Dec. 2022: Outside director (Audit and Supervisory Committee member)	Dec. 2017: Outside director Dec. 2018: Outside director (Audit and Supervisory Committee member)	Dec. 2022: Outside director (Audit and Supervisory Committee member)	Dec. 2022: Outside director (Audit and Supervisory Committee member)
Career summary (our group)	—	—	Dec. 2022: Part-time director of PRIVATECH Inc. (incumbent)	—	—
Cumulative number of years in office as a director (at the time of expiration of the current term of office)	1	1	6	1	1
Career summary (outside our group) Enterprises/groups for which the director worked previously Enterprises/groups for which the director works concurrently	Sullivan & Cromwell LLP in the U.S. Partner managing director of Goldman Sachs Executive officer of Sumitomo Mitsui Banking Corporation Managing director of SMBC Nikko Securities Inc. Senior executive officer of Japan Post Holdings Co., Ltd. Representative director and president of Japan Post Capital Co., Ltd.	General affairs section, Banking Bureau, Ministry of Finance Special finance section, Banking Bureau, Ministry of Finance Financial Markets Division, General Affairs and Planning Bureau, Financial Services Agency Director for Risk Analysis Bureau, Financial Services Agency Deloitte Touche Tohmatsu LLC Director and head of Regional Financial Laboratory (incumbent)	Outside director (Audit and Supervisory Committee member) of Mitsubishi Corporation Seven & i Net Media Co., Ltd. and Wantedly, Inc. (incumbent) Outside Audit and Supervisory Committee member of Vivid Garden Inc. (incumbent) Outside director (Audit and Supervisory Committee member) of LiB Consulting Co., Ltd. (incumbent)	KPMG AZSA LLC (registered as a certified public accountant in Apr. 2002) Partners Inc. ASAHU Tax Corporation Agata Global Tax Corporation Established Avance Consulting Inc., and became Representative Director (incumbent) Outside Audit and Supervisory Committee member of Geocode Co., Ltd. (incumbent)	Ministry of Agriculture, Forestry and Fisheries Igaki Law and Patent Office (incumbent) (registered as a lawyer in Dec. 2012)
No. of shares held by the director (including those of the executives' shareholding association) (as of the end of Mar. 2023)	—	—	2,829	83	—
Attendance at meetings of the Board of Directors (FY9/22)	—(appointed in Dec. 2022)	—(appointed in Dec. 2022)	Attended all of the 17 meetings (100%)	—(appointed in Dec. 2022)	—(appointed in Dec. 2022)
Attendance at meetings of the Audit and Supervisory Committee (FY9/22)	—	—(appointed in Dec. 2022)	Attended all of the 13 meetings (100%)	—(appointed in Dec. 2022)	—(appointed in Dec. 2022)

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Motomasa Moriya
Appointed in Dec. 2019

Representative Director and President of PCI Solutions INC. (appointed in Oct. 2022)
No. of shares he holds: 6,416



Yuji Sudo
Appointed in Dec. 2018

Representative Director and President of SORD CORPORATION (appointed in Apr. 2022)
No. of shares he holds: 21,935
Concurrent post in our group
Director of PRIVATECH Inc.



Yasuhiro Yamashita
Appointed in Dec. 2018

Representative Director and President of PRIVATECH Inc. (appointed in Dec. 2018)
No. of shares he holds: 5,158
Concurrent post in our group
Director of SORD CORPORATION

Consolidated financial statements

Consolidated balance sheet

	Unit: thousand yen	
	FY9/21	FY9/22
Assets		
Current assets		
Cash and deposits	3,310,046	2,629,966
Notes and accounts receivable - trade	4,314,250	—
Notes receivable - trade	—	49,896
Accounts receivable - trade	—	4,594,918
Electronically recorded monetary claims - operating	1,771,094	1,344,586
Contract assets	—	134,442
Inventories	1,291,517	1,627,621
Other	511,872	825,468
Allowance for doubtful accounts	△699	△978
Total current assets	11,198,082	11,205,922
Non-current assets		
Property, plant and equipment		
Buildings, net	387,910	362,026
Equipment attached to buildings, net	416,597	446,819
Other, net	142,107	143,513
Total property, plant and equipment	946,615	952,359
Intangible assets		
Goodwill	2,299,418	2,150,607
Other	194,166	111,350
Total intangible assets	2,493,585	2,261,957
Investments and other assets		
Investment securities	1,403,006	1,123,272
Deferred tax assets	300,224	401,701
Assets for retirement benefits	236,143	185,634
Other	820,930	785,117
Allowance for doubtful accounts	△7,271	△430
Total investments and other assets	2,753,034	2,495,295
Total non-current assets	6,193,235	5,709,612
Total assets	17,391,318	16,915,534

	Unit: thousand yen	
	FY9/21	FY9/22
Liability		
Current liabilities		
Accounts payable - trade	1,731,228	2,091,271
Electronically recorded obligations - operating	1,056,150	888,030
Current portion of long-term borrowings	868,223	872,364
Accounts payable - other	567,138	506,466
Income taxes payable	299,742	174,844
Accrued consumption taxes	331,072	194,532
Contract liabilities	—	920,863
Provision for bonuses	551,903	532,490
Provision for bonuses for directors (and other officers)	30,795	20,665
Provision for after cost	—	3,741
Asset retirement obligations	19,256	—
Other	1,049,939	304,016
Total current liabilities	6,505,451	6,509,286
Non-current liabilities		
Long-term borrowings	11,925,111	1,052,747
Provision for retirement benefits for directors (and other officers)	44,214	15,730
Retirement benefit liability	135,208	128,891
Asset retirement obligations	440,159	457,218
Other	391,000	377,234
Total non-current liabilities	2,935,694	2,031,820
Total liabilities	9,441,145	8,541,107
Net assets		
Shareholders' equity		
Share capital	2,091,897	2,091,897
Capital surplus	3,629,354	3,670,161
Retained earnings	2,048,153	2,388,876
Treasury shares	△356,470	△337,933
Total shareholders' equity	7,412,935	7,813,002
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	△7,893	△1,513
Remeasurements of defined benefit plans	43,489	△43,314
Total accumulated other comprehensive income	35,595	△44,827
Share acquisition rights	27,859	47,790
Non-controlling interests	473,783	558,461
Total net assets	7,950,172	8,374,426
Total liabilities and net assets	17,391,318	16,915,534

Consolidated profit-and-loss statement and consolidated statement of comprehensive income

	Unit: thousand yen	
	FY9/21	FY9/22
Net sales	21,248,541	25,170,060
Cost of sales	15,555,075	18,829,671
Gross profit	5,693,465	6,340,389
Selling and general administrative expenses	4,519,053	4,895,369
Operating income	1,174,412	1,445,020
Non-operating income		
Interest and dividend income	29,813	42,707
Exchange gains	4,913	40,069
Subsidy income	38,925	10,579
Surrender value of insurance policies	—	10,543
Other	14,114	15,270
Total non-operating income	87,766	119,171
Non-operating expenses		
Interest expenses	22,469	9,308
Commissions paid	655	749
Loss on investments in investment partnerships	7,241	3,355
Stock issuance expenses	13,857	—
Other	9,090	1,548
Total non-operating expenses	53,313	14,962
Ordinary income	1,208,864	1,549,229
Extraordinary income		
Gain on sale of non-current assets	10,136	—
Other	633	—
Total extraordinary income	10,769	—
Extraordinary losses		
Loss on retirement of non-current assets	7,057	5,174
Loss on valuation of investment securities	209	310,289
Impairment losses	—	53,490
Other	656	4,992
Total extraordinary losses	7,923	373,948
Profit before income taxes	1,211,711	1,175,280
Income taxes - current	420,900	422,525
Income taxes - deferred	77,204	△64,658
Total income taxes	498,105	357,867
Profit	713,605	817,413
Profit attributable to non-controlling interests	43,804	174,309
Profit attributable to owners of parent	669,801	643,104

	Unit: thousand yen	
	FY9/21	FY9/22
Profit	713,605	817,413
Other comprehensive income		
Valuation difference on available-for-sale securities	△72,852	6,380
Remeasurements of defined benefit plans, net of tax	43,489	△86,803
Total other comprehensive income	△29,363	△80,423
Comprehensive income	684,242	736,990
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	640,438	562,681
Comprehensive income attributable to non-controlling interests	43,804	174,309

Consolidated financial statements

Consolidated statement of changes in net assets

Previous consolidated fiscal year (from Oct. 1, 2020 to Sep. 30, 2021) (Unit: thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the year	1,046,232	2,648,772	1,632,236	△370,604	4,956,637
Change during the year					
Issuance of new shares	1,045,665	1,045,665			2,091,330
Dividends of surplus			△255,358		△255,358
Profit attributable to owners of parent			669,801		669,801
Acquisition of treasury shares				△40	△40
Transfer-restricted share-based remuneration		△11,227		14,173	2,946
Change in equity of the parent company in transactions with non-controlling interests		△51,458			△51,458
Change in the scope of consolidation		△2,396	1,473		△923
Change in items other than shareholders' equity (net amount)					
Total change during the year	1,045,665	980,582	415,916	14,133	2,456,297
Balance at the end of the year	2,091,897	3,629,354	2,048,153	△356,470	7,412,935

(Unit: thousand yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	64,958	—	64,958	10,015	396,106	5,427,719
Change during the year						
Issuance of new shares						2,091,330
Dividends of surplus						△255,358
Profit attributable to owners of parent						669,801
Acquisition of treasury shares						△40
Transfer-restricted share-based remuneration						2,946
Change in equity of the parent company in transactions with non-controlling interests						△51,458
Change in the scope of consolidation						△923
Change in items other than shareholders' equity (net amount)	△72,852	43,489	△29,363	17,843	77,676	66,156
Total change during the year	△72,852	43,489	△29,363	17,843	77,676	2,522,453
Balance at the end of the year	△7,893	43,489	35,595	27,859	473,783	7,950,172

Consolidated fiscal year under review (from Oct. 1, 2021 to Sep. 30, 2022) (Unit: thousand yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the year	2,091,897	3,629,354	2,048,153	△356,470	7,412,935
Cumulative impact due to a change in an accounting policy			9,313		9,313
Balance at the beginning of the year reflecting a change in an accounting policy	2,091,897	3,629,354	2,057,466	△356,470	7,422,248
Change during the year					
Dividends of surplus			△311,495		△311,495
Profit attributable to owners of parent			643,104		643,104
Acquisition of treasury shares				△57	△57
Transfer-restricted share-based remuneration		△3,012		18,594	15,581
Change in the scope of consolidation		43,820	△199		43,620
Change in items other than shareholders' equity (net amount)					
Total change during the year	—	40,807	331,409	18,537	390,754
Balance at the end of the year	2,091,897	3,670,161	2,388,876	△337,933	7,813,002

(Unit: thousand yen)

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at the beginning of the year	△7,893	43,489	35,595	27,859	473,783	7,950,172
Cumulative impact due to a change in an accounting policy						9,313
Balance at the beginning of the year reflecting a change in an accounting policy	△7,893	43,489	35,595	27,859	473,783	7,959,485
Change during the year						
Dividends of surplus						△311,495
Profit attributable to owners of parent						643,104
Acquisition of treasury shares						△57
Transfer-restricted share-based remuneration						15,581
Change in the scope of consolidation						43,620
Change in items other than shareholders' equity (net amount)	6,380	△86,803	△80,423	19,931	84,678	24,186
Total change during the year	6,380	△86,803	△80,423	19,931	84,678	414,940
Balance at the end of the year	△1,513	△43,314	△44,827	47,790	558,461	8,374,426

Consolidated Statements of Cash Flows

Unit: thousand yen

	FY9/21	FY9/22
Cash flows from operating activities		
Profit before income taxes	1,211,711	1,175,280
Depreciation	155,736	197,662
Amortization of goodwill	154,837	192,567
Expenses for stock-based remuneration	26,508	35,512
Increase (decrease) in allowance for doubtful accounts	5,306	△6,562
Increase (decrease) in provision for bonuses	△101,265	△19,412
Increase (decrease) in provision for bonuses for directors (and other officers)	4,734	△10,130
Increase (decrease) in provision for retirement benefits for directors (and other officers)	△12,523	△28,483
Impairment losses	—	53,490
Loss (gain) on valuation of investment securities	209	310,289
Loss (gain) on investments in investment partnerships	7,241	3,355
Loss (gain) on sale of non-current assets	△10,136	—
Loss on retirement of non-current assets	7,057	5,174
Interest and dividend income	△29,813	△42,707
Subsidy income	△38,925	△10,579
Interest expenses	22,469	9,308
Commissions paid	655	749
Stock issuance expenses	13,857	—
Decrease (increase) in trade receivables	3,986	—
Decrease (increase) in trade receivables and contract assets	—	69,192
Decrease (increase) in inventories	△276,241	△470,679
Decrease (increase) in accounts receivable - other	205,339	△119,196
Increase (decrease) in trade payables	25,643	191,468
Increase (decrease) in accounts payable - other	△35,835	△78,756
Increase (decrease) in accrued consumption taxes	△100,391	△129,988
Increase (decrease) in long-term accounts payable - other	△22,365	△17,458
Increase (decrease) in advances received	66,214	—
Increase (decrease) in contract liabilities	—	145,691
Decrease (increase) in remeasurements of defined benefit plans	62,682	△125,113
Other, net	△94,174	△96,880
Subtotal	1,252,518	1,233,797
Interest and dividends received	29,644	42,877
Interest paid	△22,625	△8,876
Subsidies received	38,925	10,579
Income taxes paid	△442,448	△542,775
Income taxes refund	92,778	517
Net cash provided by (used in) operating activities	948,793	736,120

Unit: thousand yen

	FY9/21	FY9/22
Cash flows from investing activities		
Net decrease (increase) in time deposits	△6,002	△6,001
Purchase of property, plant and equipment	△42,509	△108,340
Proceeds from sale of property, plant and equipment	1,508	—
Purchase of intangible assets	△46,867	△36,522
Proceeds from sale of intangible assets	25,332	—
Purchase of investment securities	△143,389	△51,990
Proceeds from sale and redemption of investment securities	—	20,505
Purchase of shares of subsidiaries resulting in change in scope of consolidation	△3,090,148	—
Payments of leasehold and guarantee deposits	△10,811	△1,623
Purchase of insurance funds	△36,653	△38,958
Proceeds from cancellation of insurance funds	—	23,887
Other, net	△15,278	5,781
Net cash provided by (used in) investing activities	△3,364,819	△193,261
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	△200,000	—
Repayments of long-term borrowings	△619,952	△868,223
Redemption of bonds	△114,250	—
Proceeds from issuance of shares	2,091,330	—
Stock issuance expenses	△13,857	—
Purchase of treasury shares	△40	△57
Dividends paid	△254,912	△310,731
Dividends paid to non-controlling interests	△14,172	△45,811
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	△24,000	—
Other, net	△1,810	△2,205
Net cash provided by (used in) financing activities	848,334	△1,227,027
Effect of exchange rate change on cash and cash equivalents	2,176	4,088
Net increase (decrease) in cash and cash equivalents	△1,565,514	△680,080
Cash and cash equivalents at beginning of period	4,819,861	3,298,005
Increase in cash and cash equivalents due to new consolidation	43,658	—
Cash and cash equivalents at end of period	3,298,005	2,617,924

Financial and non-financial data

		11th term FY9/15	12th term FY9/16	13th term FY9/17	14th term FY9/18	15th term FY9/19	16th term FY9/20	17th term FY9/21	18th term FY9/22
Financial data									
Status of profit and loss (fiscal year)									
Net sales	thousand yen	7,853,043	8,504,591	11,397,493	14,493,591	16,540,922	16,758,152	21,248,541	25,170,060
Operating income	thousand yen	547,005	590,061	717,414	728,802	822,078	750,207	1,174,412	1,445,020
Ordinary income	thousand yen	544,854	591,942	726,153	771,189	843,346	804,823	1,208,864	1,549,229
Profit attributable to owners of parent	thousand yen	330,865	403,060	450,744	469,750	459,866	286,904	669,801	643,104
Comprehensive income	thousand yen	330,543	403,060	453,752	504,147	423,292	395,259	684,242	736,990
Status of cash flows (fiscal year)									
Cash flows from operating activities	thousand yen	250,409	334,047	645,451	525,209	334,560	1,329,370	948,793	736,120
Cash flows from investing activities	thousand yen	56,967	△ 212,134	△ 616,459	△ 779,367	△ 442,343	△ 523,845	△ 3,364,819	△ 193,261
Cash flows from financing activities	thousand yen	275,489	628,490	△ 403,455	△ 235,214	1,324,659	827,631	848,334	△ 1,227,027
Cash and cash equivalents at end of period	thousand yen	1,477,559	2,227,962	1,853,504	1,969,890	3,186,721	4,819,861	3,298,005	2,617,924
Financial status (the end of the fiscal year)									
Total assets	thousand yen	3,285,487	4,378,589	6,530,044	9,249,136	11,315,479	12,442,015	17,391,318	16,915,534
Net assets	thousand yen	2,114,001	3,155,838	3,433,972	5,162,908	5,033,901	5,427,719	7,950,172	8,374,426
Equity capital	thousand yen	2,114,001	3,155,838	3,433,972	5,069,821	4,865,435	5,021,596	7,448,530	7,768,175
Information per share*1									
Net income per share	yen	58.78	59.39	59.96	56.87	55.47	34.85	76.12	63.97
Diluted net income per share	yen	56.24	58.35	59.41	56.64	—	—	76.06	—
Net assets per share	yen	315.09	420.35	454.21	602.30	591.52	609.61	741.28	771.99
Annual dividend per share	yen	20.00	25.00	25.00	27.50	30.00	31.00	31.00	31.00
Dividend payout ratio	%	34.0	42.1	41.7	48.4	54.1	89.0	40.7	48.5
Other financial data									
Ratio of operating income to sales	%	7.0	6.9	6.3	5.0	5.0	4.5	5.5	5.7
Return on asset	%	17.9	15.4	13.3	9.8	8.2	6.8	8.1	9.0
Return on equity	%	19.7	15.3	13.7	11.0	9.3	5.8	10.7	8.5
Capital adequacy ratio	%	64.3	72.1	52.6	54.8	43.0	40.4	42.8	45.9
Price earnings ratio	times	21.9	19.6	27.1	26.1	18.5	34.9	14.5	14.5
Non-financial data									
Number of employees		856	870	1,124	1,195	1,253	1,278	1,636	1,615
(No. of temporary workers)		3	9	36	29	26	20	64	65
Ratio of female managers*2	%							3.2%	4.0%
Ratio of male employees who have taken childcare leave*2	%							20.0%	38.9%

*1: Regarding the past stock splits (March 23, 2015, April 1, 2016, and April 1, 2020), information per share was obtained while assuming that they were conducted at the beginning of the 11th term.

*2: The ratio of female managers and the ratio of male employees who have taken childcare leave were calculated from the data in the 17th term.

Corporate profile and stock information

Corporate profile (as of the end of Sep. 2022)

Corporate name	PCI Holdings, INC.
Location of the head office	Tokyu Toranomon Bldg., 1-21-19 Toranomon, Minato City, Tokyo 105-0001
URL	https://www.pci-h.co.jp/
Date of establishment	April 11, 2005
Capital stock	2,091 million yen
Number of employees	1,615 (consolidated)
Major group companies	PCI Solutions INC. SORD CORPORATION PRIVATECH Inc.

Stock information (as of the end of Sep. 2022)

Total number of authorized shares	20,000,000
Total number of outstanding shares	10,322,400 (including 259,885 shares held by our company)
Securities code	3918
Shareholder registry administrator	Mitsubishi UFJ Trust and Banking Corporation
Comptroller	BDO Sanyu & Co.
Fiscal year	From Oct. 1 to Sep. 30 in the following year
Record date for dividends of surplus	Sep. 30 and Mar. 31
Annual meeting of shareholders	Within 3 months from the day following the last day of a fiscal year
Number of shareholders	5,140
Number of shares per trading lot	100

Status of major shareholders (as of the end of Sep. 2022)

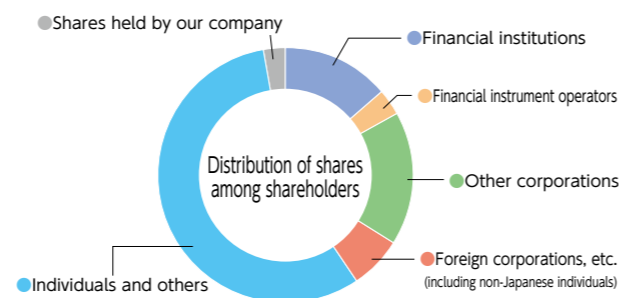
Shareholder	No. of shares	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (trust account)	1,089,400	10.83%
Restar Holdings Corporation	585,000	5.81%
Y&U Inc.	565,800	5.62%
Employee stock ownership association of PCI Holdings	485,226	4.82%
QUINTET PRIVATE BANK (EUROPE) S. A. 107704	447,600	4.45%
Emi Sekiya	319,600	3.18%
Takefumi Oka	242,700	2.41%
Custody Bank of Japan, Ltd. (trust account)	205,700	2.04%
Mitsubishi Research Institute, Inc.	192,000	1.91%
Ueda Yagi Tanshi Co., Ltd.	174,100	1.73%

*Shareholding ratio was calculated while excluding the 259,885 shares held by our company.

Distribution of shares (as of the end of Sep. 2022)

◎Distribution of shares among shareholders

Category	Shares	Count	Shareholding ratio
Financial institutions	1,422,400 shares	(9)	13.78%
Financial instrument operators	347,974 shares	(27)	3.37%
Other corporations	1,733,200 shares	(44)	16.79%
Foreign corporations, etc. (including non-Japanese individuals)	699,271 shares	(54)	6.77%
Individuals and others	5,859,670 shares	(5,005)	56.77%
Shares held by our company	259,885 shares	(1)	2.52%



◎Distribution of shares by the number of shares held

Trading Lot Category	Shares	Count	Shareholding ratio
Less than 1 trading lot	2,489 shares	(324)	0.02%
1 or more trading lots	628,787 shares	(3,033)	6.09%
5 or more trading lots	446,527 shares	(683)	4.33%
10 or more trading lots	1,665,812 shares	(907)	16.14%
50 or more trading lots	579,101 shares	(87)	5.61%
100 or more trading lots	1,762,073 shares	(86)	17.07%
500 or more trading lots	428,200 shares	(7)	4.15%
1,000 or more trading lots	2,569,211 shares	(10)	24.89%
5,000 or more trading lots	2,240,200 shares	(3)	21.70%

