

1. Business Highlights for the Six Months of 39th Business Period (Fiscal Year Ending March 31, 2023)

(1) Qualitative Information on Consolidated Results of Operations

During the six months ended September 30, 2022, the Japanese economy continued to face a difficulty of steering between prevention of the spread of COVID-19 infection and stimulation of economic and social activities, as the seventh wave of infections driven by the Omicron variant peaked in August. Going forward, concerns over the possible eighth wave will remain due to the re-spread of infections. In addition, with concerns about economic slowdown, such as increased geopolitical risks stemming from the Russia's invasion of Ukraine, inflation due to rising raw material prices, delivery delays for high-tech products due to semiconductor shortages, soaring crude oil prices and rapid yen depreciation due to the difference in interest rates between Japan and the U.S., the outlook for the Japanese economy remained uncertain. In particular, a record-low yen since 1998 may deal a heavy blow to the economy in Japan as it aims to recover from COVID-19.

Now that new work styles including remote working are taking root in the wake of the spread of COVID-19, ransomware and other types of cyber-attacks are becoming more intense. This has heightened awareness of security measures as a management issue, especially among large companies. As a result, the demand for cybersecurity products and services has continued to grow.

Under these circumstances, in the Information Infrastructure Business, the Company's core business, we see strong demand continuing for cloud-based security measure products. Integrated security monitoring services provided by the Company were also robust, proving that its value-added strategies are bearing fruits. Furthermore, to prepare for the full-blown arrival of the cloud era, we are shifting our approach to developing and operating infrastructure to be cloud-native and started providing solutions that take full advantage of cloud-native technologies.

In the Application Services Business, new inquiries are steady in the CRM field thanks to business collaborations with a major system integrator and telemarketing vendor, an expanding demand for cloud services, improved name recognition, and the expansion of business performance. For overseas markets, we have continued to work to accelerate business development in the ASEAN market based on the capital and business alliance with Wiselight (Thailand) Company Limited, the largest company in the social data analysis cloud field in Thailand. In the Software Quality Assurance field, demand remains strong for testing tools for in-vehicle software. In this field, too, a shift to recurring revenue business models has been underway as subscription-based services have increased.

In the Medical Systems Business, which was newly spun out as a separate business segment this fiscal year, the new PSP Corporation ("PSP") started several initiatives (PSP was established on April 1, 2022, with a merger between NOBORI Ltd., which spun out from the Company to become its consolidated subsidiary in 2018, and the former PSP Corporation, which became the Company's consolidated subsidiary in February 2022.). PSP has been working to unify our customer base and integrate our products and services, as well as promoting cloud-based PACS (medical imaging management) with the aim of shifting to recurring revenue business models. In addition, PSP has endeavored to expand the number of users of Personal Health Record (PHR) services for individual customers, which were promoted by NOBORI Ltd. before. For the business of AI-based medical image diagnostic support services, M3 AI, Inc. (established as a joint venture between PSP and M3, Inc. on April 1, 2022) has been taking the lead in accelerating the distribution of AI to medical practices.

With a mission statement of being "the IT professional group who create a better future," the Company announced the new Medium-term Management Plan "BEYOND THE NEW NORMAL" on May 10, 2021. In the future, as "digital" is built into every corner of society and digital transformation (DX), which reforms business models using digital technology, advances rapidly, the Company sees this rapid shift to digitization and the dramatic restructuring of industry as a new growth opportunity and aims to contribute to the creation of a sustainable society by providing services to solve social issues. The spread of COVID-19 has prompted us to shift to a new mode of life called the "New Normal." In the new Medium-term Management Plan, we will accelerate businesses oriented toward domains that will be essential to society, incorporating an SDG perspective with an eye on the new society to come after the "New Normal."

The new Medium-term Management Plan “BEYOND THE NEW NORMAL” states seven key strategies to be achieved while carrying on with the core business strategies of the previous Medium-term Management Plan “GO BEYOND 3.0.”

- The core business strategies (continued)
 - Strategic and accelerated promotion of cloud-related businesses
 - Pursuit of security and safety
- The seven key strategies
 - 1) Expanding portfolio of products and services
 - 2) Accelerated servicization (increasing service ratio)
 - 3) Utilization of data (including use of AI)
 - 4) Diverse alliances/M&A (Expansion of existing business, Creation of new business)
 - 5) Expanding business in the overseas market
 - 6) Creation of synergies by strengthening group collaboration
 - 7) Human resource development/Organizational development (including promotion of diversity)

Our Group implemented the following initiatives in accordance with the above business strategies.

◇ Information Infrastructure Business

First quarter ended June 30, 2022

- Okinawa Cross Head Co., Ltd renamed to OCH Co., Ltd. and changed its corporate logo.
- OCH Co., Ltd. launched OCH SG-ONE, an easy-to-implement, one-stop security solution for small and medium-sized businesses.
- Received the Partner of the Year 2022 and Deal Registration of the Year 2022 from Proofpoint Japan K.K.
- Received the MVP Partner of the Year 2021 from TANIUM.

Second quarter ended September 30, 2022

- CROSS HEAD started to provide “Cloud Compass,” a next generation solution for comprehensive cloud support services.
- Released “TechMatrix NEO,” a solution for cloud-native deployment
- OCH Co., Ltd. concluded a business alliance agreement with JR Kyushu System Solutions Inc. (JRQSS) to support new working styles.
- Started to sell “Votiro Cloud” from Votiro Cybersec Ltd., a cloud-based solution to disarm files.
- CROSS HEAD launched “Pleasanter on AWS.”
- OCH Co., Ltd. launched “octpath,” which helps companies standardize and streamline their business operations, in collaboration with acrorea, Inc., a digital transformation solutions company.
- Started to offer SentinelOne Vigilance MDR services.
- Started to provide Attack Surface Management services to offer support for Palo Alto Networks Cortex® Xpanse.

◇ Application Services Business

First quarter ended June 30, 2022

- Software Quality Assurance field: Started to sell the Japanese version of the latest Ranorex 10.2, a UI testing automation tool with powerful object recognition capabilities.
- EdTech field: Started a joint project for the use of study logs with Compass Inc., which develops and provides Qubena, AI-based teaching materials.
- EdTech field: Acquired a patent for a class scheduling system that supports individually optimized learning.
- EdTech field: Implemented “tsumugino” cloud services for Baika Junior High School and Baika High School.

Second quarter ended September 30, 2022

- Software Quality Assurance field: Launched the Japanese version of Lattix 2022.1.1, an architecture analysis tool.
- Software Quality Assurance field: Started to provide “TechMatrix Redmine Cloud Services.”
- Software Quality Assurance field: Launched “Jtest 2022.1,” a Java-supported testing automation tool.
- EdTech field: Implemented “tsumugino” cloud services for Momoyama Primary School Attached to Kyoto University of Education.
- EdTech field: Acquired a patent for a comment posting system that is best suited to educational institutions.
- CASAREAL, Inc. was selected as an IT implementation support provider; as subsidized IT tools, it started to provide “Boisuke/Modesuke,” cloud-based schedulers for the voice acting and modeling industries.

◇ Medical Systems Business

First quarter ended June 30, 2022

- PSP Corporation started to provide Brain Healthcare Program that visualizes brain health together with Splink and Millennia.
- PSP Corporation started integration of NOBORI (a PHR app) with Mynaportal.

Second quarter ended September 30, 2022

- PSP Corporation concluded a capital and business alliance with Medmain, accelerating the promotion of digital pathology.

As a result of the above, revenue during the six months ended September 30, 2022 increased ¥4,597 million (28.5%) year on year to ¥20,743 million, achieving a record high. Gross profit increased ¥1,814 million (32.8%) year on year to ¥7,349 million. Selling, general and administrative expenses increased ¥1,484 million (37.7%) year on year to ¥5,420 million, due to an increase in personnel expenses and other factors. Accordingly, operating profit increased ¥314 million (19.6%) year on year to ¥1,915 million.

Consequently, profit before tax increased ¥314 million (19.7%) year on year to ¥1,914 million, and profit attributable to owners of parent increased ¥17 million (1.7%) year on year to ¥1,063 million.

Results by operating segment were as follows:

The Company has changed its reportable segments from the first quarter ended June 30, 2022. For the details, refer to “(2) Information related to changes in reportable segments” in “(4) Notes to Condensed Quarterly Consolidated Financial Statements” (in Japanese only).

1) Information Infrastructure Business

Results of the Information Infrastructure Business for the six months ended September 30, 2022 were strong thanks to abundant order backlog accumulated in the previous fiscal year and orders for new projects. Orders are on the increase for cloud security measure products with subscription-based pricing models. Sales in western Japan have also remained strong from the previous fiscal year. Orders received and revenue for the six months ended September 30 2022, exceeded the results for the previous fiscal year on a consolidated basis. On the other hand, operating profit slightly decreased compared to the previous fiscal year. This is mainly due to the rapid yen depreciation, increases in labor costs and selling, general and administrative expenses, investments in cloud-native solutions—a new business we started to work on, and the recording of office relocation expenses. By product, a new generation of security measure products, including “SASE (Secure Access Service Edge),” “CASB (Cloud Access Security Broker),” “Cyber Hygiene” and “SDP (Software Defined Perimeter)” are also attracting attention with an increase in adoption. Since Russia’s military invasion of Ukraine, infection with malware such as Emotet and ransomware attacks has been spreading. As such infections are primarily introduced

via emails, demand for next-generation email security products was also strong.

At CROSS HEAD, both revenue and operating profit were in line with the plan. Orders for infrastructure development projects remained robust, but delayed delivery of network equipment due to shortage of semiconductors continued to cause development projects with major SI companies to be postponed.

At OCH Co., Ltd., revenue slightly fell short of the planned figure, but operating profit exceeded it. Orders were strong for the services and products that were originally developed by OCH. In addition, a shift to recurring revenue business models has been underway as subscription-based services increase.

As a result, revenue of the business increased ¥2,076 million (18.4%) year on year to ¥13,366 million, achieving a record high, while operating profit decreased ¥114 million (8.3%) year on year to ¥1,265 million.

2) Application Services Business

For the six months ended September 30, 2022, orders for the Application Services Business were strong and exceeded those for the previous year. In contrast, revenue increased only slightly as we were behind in terms of orders received in the early part and rallied toward the end of this first half. This slight increase is also due to the fact that subscription-based orders received have increased, and consequently, revenue and profits are deferred for a longer period over the term of contracts. Operating profit was below the planned figure partly because the Company continued proactive investment in the education business and unprofitable projects occurred.

In the CRM field, orders received increased steadily compared to the previous year but both revenue and operating profit were below the planned figures as the timing of orders received was delayed.

In the Software Quality Assurance field, demand remained robust for testing tools used to ensure quality of enterprise systems and embedded software. With the further application of IT in automobiles, there is strong demand for improvement in the quality of embedded software in the manufacturing industry, etc., which develops in-vehicle software, and orders continued to be favorable. However, as orders are increasing for subscription-based licenses, growth in revenue and operating profit is relatively moderate.

In the Business Solutions field, we were slightly behind in terms of orders since we lost some expected orders. Operating profit was negatively impacted by unprofitable projects that occurred in the financial related field. Toward the third quarter, we will endeavor to increase orders.

At Information Design & Architecture Yamazaki Co., Ltd., revenue and operating profit were below the plan as new sales activities were slow partly because it focused on existing projects. The challenge to be addressed is to increase orders by rebuilding the sales structure and promoting sales activities. At CASAREAL, Inc., both revenue and operating profit were largely in line with the plan. In particular, the education business such as IT training for new employees was robust, leading the overall performance.

In the new education services, our school communication platform has been adopted by famous private advanced schools as well as national and other public schools. To start up the business swiftly, we continue active investments in line with the plan, strengthening sales and marketing activities intensively.

As a result, revenue of the business increased ¥26 million (0.8%) year on year to ¥3,364 million, while operating loss increased ¥65 million (205.0%) year on year to ¥ 97 million.

3) Medical Systems Business

In the Medical field, orders for “NOBORI,” a cloud service for medical information offered by the new PSP Corporation, established on April 1, 2022, remained strong, and the cumulative number of contracting facilities increased. Meanwhile, upfront investments are continuing in projects such as the development of PHR services targeted at consumers (patients) and the joint development of medical image diagnostic support systems in conjunction with AI venture companies and doctors, and they have achieved strong results. The overall performance of PSP resulted in an excess of revenue and a significant excess of operating profit compared to the planned figures. This is attributable to an uncompleted shift to the cloud in former PSP Corporation’s PACS

(medical imaging management) business, where sales were comprised of sale and maintenance of on-premise products. The shift to the cloud was planned to be implemented at the beginning of the current fiscal year, but did not fully proceed during the six months ended September 30, 2022.

At Ichigo LLC, our medical-related consolidated subsidiary, results remained strong, overachieving the plan for the fiscal year under review.

With respect to safety management systems for medical radiation, the Ministerial Order Partially Amending the Enforcement Regulations on the Medical Care Act was already enforced. However, supervisory bodies have made little progress on audits due to the pandemic, and medical institutions' investment appetite for installation of radiation dose management systems is not as high as anticipated. As a result, at A-Line Co., Ltd., orders received were somewhat sluggish, while both revenue and operating profit were roughly in line with the plan as its business is subscription-based.

As a result, revenue of the business increased ¥2,494 million (164.1%) year on year to ¥4,013 million. Operating profit increased ¥494 million (195.5%) year on year to ¥748 million.

(2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥5,403 million (12.8%) from March 31, 2022 to ¥47,671 million as of September 30, 2022. The principal factor in this change was an increase of ¥3,614 million in advance payments to suppliers. Non-current assets stood at ¥13,118 million, an increase of ¥2,881 million (28.2%) from March 31, 2022. The principal factor in this change was a ¥1,845 million increase in property, plant and equipment. As a result, total assets amounted to ¥60,789 million, an increase of ¥8,285 million (15.8%) from March 31, 2022.

Current liabilities stood at ¥33,005 million, an increase of ¥5,015 million (17.9%) from March 31, 2022. The principal factor in this change was an increase of ¥6,428 million in contract liabilities. Non-current liabilities stood at ¥5,934 million, a ¥1,622 million (37.6%) increase from March 31, 2022. The principal factor in this change was a ¥1,655 million increase in lease liabilities. As a result, total liabilities amounted to ¥38,940 million, an increase of ¥6,638 million (20.6%) from March 31, 2022.

Total equity was ¥21,849 million, an increase of ¥1,646 million (8.2%) from March 31, 2022. The principal factor in this change was an increase of ¥1,284 million in non-controlling interests. As a result, the ratio of equity attributable to owners of parent to total assets was 28.6%.

(3) Qualitative Information on Consolidated Financial Results Forecast and Other Forward-looking Statements

At this point, the financial results forecast is unchanged from the figures announced on May 9, 2022.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and cash equivalents	18,155,903	19,216,606
Trade and other receivables	5,925,359	4,221,629
Inventories	561,382	1,023,398
Advance payments to suppliers	11,280,216	14,894,587
Advance payment - cost of maintenance service	5,510,575	7,100,351
Other financial assets	–	48,174
Other current assets	833,884	1,166,451
Total current assets	42,267,321	47,671,200
Non-current assets		
Property, plant and equipment	3,506,475	5,352,192
Goodwill	171,978	171,978
Intangible assets	1,752,207	1,938,127
Investments accounted for using equity method	–	135,003
Other financial assets	2,739,527	3,544,596
Deferred tax assets	1,645,860	1,572,522
Other non-current assets	420,341	403,759
Total non-current assets	10,236,391	13,118,180
Total assets	52,503,713	60,789,380

(Thousand yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Trade and other payables	2,158,981	1,751,351
Borrowings	595,000	570,000
Lease liabilities	867,594	933,261
Income taxes payable	1,115,294	967,089
Contract liabilities	19,692,808	26,121,239
Other financial liabilities	–	3,037
Provisions	505,468	491,686
Other current liabilities	3,054,843	2,168,179
Total current liabilities	27,989,991	33,005,845
Non-current liabilities		
Borrowings	500,000	400,000
Lease liabilities	1,534,536	3,189,847
Retirement benefit liability	1,857,080	1,982,836
Deferred tax liabilities	52,622	–
Other non-current liabilities	367,205	361,606
Total non-current liabilities	4,311,445	5,934,290
Total liabilities	32,301,437	38,940,136
Equity		
Share capital	1,298,120	1,298,120
Capital surplus	4,861,825	4,589,034
Treasury shares	(975,804)	(974,490)
Retained earnings	11,149,198	11,706,363
Other components of equity	685,431	761,785
Total equity attributable to owners of parent	17,018,771	17,380,813
Non-controlling interests	3,183,504	4,468,429
Total equity	20,202,276	21,849,243
Total liabilities and equity	52,503,713	60,789,380

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

For the six months ended September 30

(Thousand yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Revenue	16,146,626	20,743,854
Cost of sales	(10,611,921)	(13,394,342)
Gross profit	5,534,704	7,349,512
Selling, general and administrative expenses	(3,935,464)	(5,420,461)
Other income	3,387	46,473
Other expenses	(1,495)	(59,935)
Operating profit	1,601,132	1,915,588
Finance income	9,975	41,150
Finance costs	(11,385)	(37,219)
Share of profit (loss) of investments accounted for using equity method	–	(4,996)
Profit before tax	1,599,722	1,914,523
Income tax expense	(487,886)	(604,279)
Profit	1,111,836	1,310,243
Profit attributable to:		
Owners of parent	1,045,957	1,063,735
Non-controlling interests	65,878	246,508
Earnings per share		
Basic earnings per share (Yen)	26.32	26.65
Diluted earnings per share (Yen)	26.24	26.57

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the six months ended September 30

(Thousand yen)

	For the six months ended September 30, 2021	For the six months ended September 30, 2022
Profit	1,111,836	1,310,243
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Equity financial assets measured at fair value through other comprehensive income	(38,210)	74,701
Total of items that will not be reclassified to profit or loss	(38,210)	74,701
Items that may be reclassified to profit or loss		
Cash flow hedges	843	31,253
Total of items that may be reclassified to profit or loss	843	31,253
Other comprehensive income, net of tax	(37,367)	105,954
Comprehensive income	1,074,468	1,416,198
Comprehensive income attributable to:		
Owners of parent	1,008,590	1,157,619
Non-controlling interests	65,878	258,579

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the six months ended September 30, 2021

(Thousand yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Share acquisition rights	Remeasurements of defined benefit plans
Balance at April 1, 2021	1,298,120	4,619,915	(1,011,805)	9,450,986	98,152	–
Profit	–	–	–	1,045,957	–	–
Other comprehensive income	–	–	–	–	–	–
Comprehensive income	–	–	–	1,045,957	–	–
Dividends of surplus	–	–	–	(476,903)	–	–
Purchase of treasury shares	–	–	(169)	–	–	–
Share-based payment transactions	–	–	–	–	8,510	–
Total transactions with owners, etc.	–	–	(169)	(476,903)	8,510	–
Balance at September 30, 2021	1,298,120	4,619,915	(1,011,975)	10,020,039	106,662	–

	Equity attributable to owners of parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of parent		
	Equity financial assets measured at fair value through other comprehensive income	Cash flow hedges	Total			
Balance at April 1, 2021	386,476	2,919	487,548	14,844,764	1,509,964	16,354,728
Profit	–	–	–	1,045,957	65,878	1,111,836
Other comprehensive income	(38,210)	843	(37,367)	(37,367)	–	(37,367)
Comprehensive income	(38,210)	843	(37,367)	1,008,590	65,878	1,074,468
Dividends of surplus	–	–	–	(476,903)	(3,000)	(479,903)
Purchase of treasury shares	–	–	–	(169)	–	(169)
Share-based payment transactions	–	–	8,510	8,510	–	8,510
Total transactions with owners, etc.	–	–	8,510	(468,562)	(3,000)	(471,562)
Balance at September 30, 2021	348,265	3,763	458,691	15,384,792	1,572,843	16,957,635

For the six months ended September 30, 2022

(Thousand yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Share acquisition rights	Remeasurements of defined benefit plans
Balance at April 1, 2022	1,298,120	4,861,825	(975,804)	11,149,198	116,116	–
Profit	–	–	–	1,063,735	–	–
Other comprehensive income	–	–	–	–	–	–
Comprehensive income	–	–	–	1,063,735	–	–
Dividends of surplus	–	–	–	(518,866)	–	–
Purchase of treasury shares	–	–	(42)	–	–	–
Disposal of treasury shares	–	3,679	1,356	–	–	–
Share-based payment transactions	–	4,892	–	–	14,269	–
Exercise of stock acquisition rights	–	–	–	–	(5,030)	–
Forfeiture of share options	–	–	–	12,295	(17,721)	–
Changes in ownership interest in subsidiaries	–	(281,362)	–	–	–	–
Total transactions with owners, etc.	–	(272,790)	1,314	(506,571)	(8,482)	–
Balance at September 30, 2022	1,298,120	4,589,034	(974,490)	11,706,363	107,633	–

	Equity attributable to owners of parent				Non-controlling interests	Total equity
	Other components of equity			Total equity attributable to owners of parent		
	Equity financial assets measured at fair value through other comprehensive income	Cash flow hedges	Total			
Balance at April 1, 2022	569,315	–	685,431	17,018,771	3,183,504	20,202,276
Profit	–	–	–	1,063,735	246,508	1,310,243
Other comprehensive income	62,629	31,253	93,883	93,883	12,071	105,954
Comprehensive income	62,629	31,253	93,883	1,157,619	258,579	1,416,198
Dividends of surplus	–	–	–	(518,866)	(6,946)	(525,813)
Purchase of treasury shares	–	–	–	(42)	–	(42)
Disposal of treasury shares	–	–	–	5,036	–	5,036
Share-based payment transactions	–	–	14,269	19,161	–	19,161
Exercise of stock acquisition rights	–	–	(5,030)	(5,030)	–	(5,030)
Forfeiture of share options	–	–	(17,721)	(5,426)	–	(5,426)
Changes in ownership interest in subsidiaries	(9,046)	–	(9,046)	(290,409)	1,033,292	742,883
Total transactions with owners, etc.	(9,046)	–	(17,529)	(795,576)	1,026,345	230,768
Balance at September 30, 2022	622,898	31,253	761,785	17,380,813	4,468,429	21,849,243