

Chapter 04

Materiality Issues and Major Risks

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Materiality Issues

We have identified six materiality issues primarily in light of our management philosophy, code of conduct, values and long-term growth strategy. Based on these materiality issues, we develop, implement, and promote strategies, as well as review and revise the materiality issues, as needed, in line with changes in the business environment and society. For the process of identifying the materiality issues, please refer to Risk Management on page 35.



Risk Management

Under the supervision of the Board of Directors, the Executive Committee manages group-wide risks. Among others, the Sustainability Council is delegated authority to identify and assess sustainability-related risks and opportunities.

The Sustainability Council consists of the president and CEO and the executive directors of the Company and its subsidiaries and is chaired by the president and CEO. The assessment of sustainability-related risks and opportunities deliberated by the Sustainability Council and the progress of related goals and initiatives are reported to the Executive Committee for deliberation as part of group-wide risk management.

In addition, the Board of Directors receives a semi-annual report, which enables effective supervision by the Board of Directors. Based on these reports, the Board of Directors formulates strategies for the entire group, which are reflected in the medium-term business plan, risk management policies, and business strategies.

At the same time as the process of identifying materiality issues, the Group also identifies the risks and opportunities associated with these issues and establishes a policy for responding to them. Specifically, each department responds to each materiality issue on an individual basis and, depending on the importance and expertise of the case, the status of these responses

are monitored by the Board of Directors, the Executive Committee, the Information Risk Management Committee, and the Project Review Committee.

In some cases, these bodies issue directions to implement countermeasures directly, thereby ensuring effective management.

In parallel with this process, each department conducts a bottom-up risk assessment from the viewpoint of likelihood of occurrence and business impact, and individual countermeasures are implemented for those cases determined to be of high importance

Process of identifying materiality issues

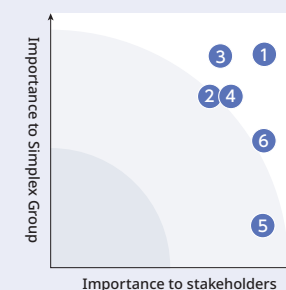
(1) Identification of issues

While operating companies often prefer to develop systems in-house, we recognize that barriers to successful in-house system development at non-tech companies are high, given social conditions such as technological innovation in generative AI and the rapid decline in the working-age population. In order to resolve these issues, we interviewed each department to determine what materiality issues should be selected for Simplex Group, and extracted all possible issues.

(2) Determination of importance

First, the materiality issues are divided into two categories: business materiality issues, which are issues to be addressed in the normal course of business, and management foundation materiality issues, which are issues that are linked to promoting business and strengthening the management foundation. Then, we evaluate based on two aspects: importance to the Simplex Group and importance to stakeholders, including our clients, business partners, shareholders and investors. In assessing these issues, we refer to domestic and international standards such as the Guidance for Collaborative Value Creation and the SASB Standard*, and select items that are important for both categories, as well as items that are important as social issues even if they are important for only one of them

* Sustainability Accounting Standards Board



- ① Innovation and Competitiveness
- ② Client relationship management
- ③ Human capital management
- ④ Product quality and safety
- ⑤ Response to global environment issues
- ⑥ Realization of sophisticated governance

(3) Discussions at Executive Committee, Sustainability Council, etc.

The appropriateness of these evaluations is discussed at Management Committees and the Sustainability Council, and materiality issues determined to be important from a management's perspective are selected.

(4) Discussion and decisions by the Board of Directors

Ultimately, the Board of Directors, including outside directors who are experts in various fields such as management and law, hold discussions and determines materiality issues for Simplex Group.

(5) Feedback from stakeholders

We undertake timely reviews of materiality issues we highlight, taking into account changes in social conditions and the internal environment, as well as feedback from our clients, business partners, shareholders, investors, and other stakeholders.

Major Risks

Materiality issue	Risks	Countermeasures
Innovation and competitiveness	Dependence on specific industries - A large proportion of revenue is from financial institutions such as securities firms and banks	- Develop Strategy/DX Consulting business driven by Xspear - Diversify the business portfolio through expansion of Non-financial Solutions domain ▶ Page 12 Business Model
	Competition with other companies - Decline in the Group's competitive advantage resulting from the provision of superior solutions by competitors - Price competition greater than expected due to the spread of packaged products, etc.	- Continuously verify the Group's competitive advantage by analyzing competitors' solutions, packaged product developments, market share, etc.
Human capital management	Talent strategy - Decline in the Group's competitive advantage due to an inability to recruit the top 10% of talent in the market - Decline in labor productivity and increase in employee turnover due to deteriorating labor environment	- Maintain one of the highest compensation packages in the industry - Provide an environment and growth opportunities for a diverse range of professionals to demonstrate their sharpest talents - Establish various systems that help improve employee engagement, such as a fair and transparent evaluation system ▶ Page 39 ESG: Social
Product quality and safety	Occurrence of problems related to system development and solutions - Loss of confidence resulting from the inability to provide solutions that meet the functional requirements and service levels specified in contracts or to meet delivery deadlines. - Service suspension due to product defects or changes in licensing terms and conditions provided by third parties	- Thoroughly review development progress by the Executive Committee, Competency Team, Quality Improvement Division, etc. - Collect information on third-party product defects, changes in regulations, etc., and timely and appropriately share such information to relevant departments - Have clients agree to certain disclaimers and take out compensation liability insurance
	Information Security - System failures or service outages due to computer viruses or cyber- attacks, or leakage of confidential information such as personal data	- Put in place the internal information security system by acquiring ISO/IEC 27001 Information Security Management System (ISMS) certification, etc. - Select secure software and hardware ▶ Page 56 Information Security
Response to global environment issues	Information Security - Inability to use data centers, cloud servers, and other infrastructure due to natural disasters such as major earthquakes, volcanic eruptions, windstorms, and floods	- Conduct periodic drills to prepare for natural disasters. - Ensure regular data backup, redundancy, etc.

For details on risks, please refer to "Risk Factors" in the Matters Not Required to Be Provided in Documents to Be Delivered upon Notice of the Convocation of the 8th Ordinary General Meeting of Shareholders

📄 <https://www.simplex.holdings/en/ir/stock/meeting/>



Long-Term Goal

			FY3/2023 Results	FY3/2024 Results	FY3/2027 Targets
Financial targets	Revenue		34.9 billion yen	40.7 billion yen	60.0 billion yen
	Operating profit		7.4 billion yen	8.8 billion yen	15.0 billion yen
	Gross profit (GP) margin		41.8%	42.9%	45.0%
	Operating profit (OP) margin		21.3%	21.7%	25.0%
	ROE		13.7%	13.9%	17.0%
Non-financial targets for materiality issues	Innovation and competitiveness	Investment in R&D	1.4 billion yen	1.8 billion yen	Approx. 4% of revenue
	Client relationship management	Average number of business partner engineers and consultants during the period*1	542	522	Approx. 500
	Human capital management	Average number of engineers and consultants during the period*2	1,436	1,678	2,400
		Number of new graduates hired*3	290	185	300
		Number of mid-career professionals hired	112	118	150
		Turnover rate	9%	8%	Less than 9%
		Percentage of women to total employees	12.6%	15.7%	20.0%
		Percentage of women in management positions	6.3%	6.6%	20.0%
		Percentage of women out of new graduate hires	22%	15%	25%
		Percentage of paid leave taken*4	61.9%	66.6%	70.0% or more
	Product quality and safety	Percentage of employees who participate in the annual measurement of the degree of understanding security	100%	100%	100%
		Number of Information Risk Management Committee meetings to be held	Held every week	Held every week	To be held every week
	Response to global environment issues	GHG emissions*5	Scope 1 (direct emissions from owned or controlled sources)	0t-CO2	0t-CO2
			Scope 2 (indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company)	445.8 t-CO2	10.3 t-CO2
			Scope 3 (all other indirect emissions that occur in the reporting company's supply chain)	5,270.4 t-CO2	6,880.0 t-CO2
	Realization of sophisticated governance	Number of inside and outside directors (Percentage of outside directors) (non-consolidated)		Inside: 4 Outside: 5 (55.6%)	Inside: 4 Outside: 6 (60.0%)
		Number of male and female directors (percentage of female directors) (non-consolidated)		Male: 9 Female: 0 (0.0%)	Male: 9 Female: 1 (10.0%)

Vision1000

Simplex Group's Vision

To be the one and only strategic partner
for Clients

To be the dominant "Biz x Tech" innovator
for Employees

To be the game changer in the age of DX
for Society

Aim to achieve the following indicative targets by early 2030s

Revenue
100 billion yen

OP margin
30%

ROE
20%

*1 Business partners refer to temporary workers, employees of subcontractors, and equivalents who are engaged in work in the office environment of Simplex Group.

*2 Average of total number of employees and business partners during the period.

*3 The number of new graduates hired is based on the number of those decided or targeted to be hired during each fiscal year, and the actual date of joining the company is April 1 of the following fiscal year.

*4 Since annual paid leave is granted on the record date of January 1 of each year, the figures are based on the results or target for the period from January 1 to December 31, 2022, 2023 and 2026.

*5 Each item is calculated based on the Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain (March 2022, Ministry of the Environment and Ministry of Economy, Trade and Industry). Scope 1 emissions of Simplex Group are excluded from the calculation because they are negligible

*6 Scope 2 emissions target is the target for FY3/2026.

*7 Scope 3 emissions target will be disclosed as soon as the targets are formulated.