

Translation

Notice: This document has been translated from the original Japanese document and is only for reference purposes. In the case of any discrepancies between the two documents, the Japanese one shall prevail.

Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (Based on Japanese GAAP)

May 11, 2022

Company name: CUBE SYSTEM INC.
 Stock exchange listing: Tokyo
 Stock code: 2335 URL <https://www.cubesystem.co.jp/en/>
 Representative: Representative Director and President Masahiro Nakanishi
 Seniority Corporate Officer,
 Inquiries: President's Office Hirofumi Kitagaki TEL 03-5487-6030
 Scheduled date of annual general meeting of shareholders: June 24, 2022
 Scheduled date to commence dividend payments: June 6, 2022
 Scheduled date to file annual securities report: June 24, 2022
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Consolidated operating results

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended March 31, 2022	16,099	8.9	1,417	20.7	1,432	10.6	944	11.9
Fiscal year ended March 31, 2021	14,788	0.5	1,174	28.2	1,295	46.8	844	51.8

Note: Comprehensive income For the fiscal year ended March 31, 2022: ¥969 million [(14.3)%]

For the fiscal year ended March 31, 2021: ¥1,131 million [62.1%]

	Earnings per share	Diluted earnings per share	Return on equity	Return on Assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended March 31, 2022	69.82	–	13.8	14.7	8.8
Fiscal year ended March 31, 2021	62.11	–	14.0	14.8	7.9

Reference: Share of profit (loss) of entities accounted for using equity method

For the fiscal year ended March 31, 2022: ¥– million

For the fiscal year ended March 31, 2021: ¥– million

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations has been applied from the beginning of the fiscal year ended March 31, 2022, and each figure for the fiscal year ended March 31, 2022, is the figure after retrospectively applying the accounting standard and relevant ASBJ regulations.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2022	10,064	7,214	71.2	531.14
As of March 31, 2021	9,444	6,515	68.6	476.52

Reference: Equity As of March 31, 2022: ¥7,170 million

As of March 31, 2021: ¥6,476 million

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations has been applied from the beginning of the fiscal year ended March 31, 2022, and each figure as of March 31, 2022, is the figure after retrospectively applying the accounting standard and relevant ASBJ regulations.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended March 31, 2022	1,015	(134)	(324)	5,015
Fiscal year ended March 31, 2021	1,043	58	(215)	4,447

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended March 31, 2021	–	8.00	–	12.00	20.00	278	32.2	4.5
Fiscal year ended March 31, 2022	–	8.00	–	15.00	23.00	324	32.9	4.6
Fiscal year ending March 31, 2023 (Forecast)	–	11.00	–	15.00	26.00		35.2	

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2022	8,155	1.2	749	0.4	754	0.3	505	0.7	37.33
Full year	17,300	7.5	1,530	7.9	1,545	7.8	1,000	5.9	73.91

4. Notes

- (1) Changes in significant subsidiaries during the fiscal year ended March 31, 2022
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No
- (Note) For details, please see “(5) Notes to consolidated financial statements (Changes in accounting policies)” of “3. Consolidated Financial Statements and Significant Notes Thereto” on page 13 of the attached material.

(3) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2022	14,500,000 shares	As of March 31, 2021	15,279,840 shares
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Number of treasury shares at the end of the period

As of March 31, 2022	1,000,392 shares	As of March 31, 2021	1,689,732 shares
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Average number of shares during the period

Fiscal year ended March 31, 2022	13,529,774 shares	Fiscal year ended March 31, 2021	13,589,107 shares
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- (Note) The total number of issued shares at the end of the period includes the number of the Company's shares held by the Board Incentive Plan (BIP) trust account (357,600 shares for the fiscal year ended March 31, 2021; 617,700 shares for the fiscal year ended March 31, 2022). The Company's shares held by the BIP trust account (357,600 shares for the fiscal year ended March 31, 2021; 509,325 shares for the fiscal year ended March 31, 2022) are included in the treasury shares that are excluded from the calculation of the average number of shares during the period.

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2022 (from April 1, 2021 to March 31, 2022)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended March 31, 2022	15,210	9.9	1,317	20.3	1,332	9.6	875	10.7
Fiscal year ended March 31, 2021	13,843	2.3	1,095	23.0	1,215	32.8	791	61.1

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Fiscal year ended March 31, 2022	64.71	—
Fiscal year ended March 31, 2021	58.21	—

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations has been applied from the beginning of the fiscal year ended March 31, 2022, and each figure for the fiscal year ended March 31, 2022, is the figure after retrospectively applying the accounting standard and relevant ASBJ regulations.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2022	9,377	6,643	70.8	492.10
As of March 31, 2021	8,801	6,003	68.2	441.73

Reference: Equity As of March 31, 2022: ¥6,643 million
As of March 31, 2021 ¥6,003 million

(Note) The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations has been applied from the beginning of the fiscal year ended March 31, 2022, and each figure as of March 31, 2022, is the figure after retrospectively applying the accounting standard and relevant ASBJ regulations.

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters
(Cautions regarding forward looking statements and others)

The forward-looking statements, including earnings forecasts, contained in this report are based on the information currently available to the Company and certain assumptions judged to be reasonable by the Company, and are not intended for the Company to guarantee the attainment thereof. Actual results may turn out to be significantly different due to various factors. As for preconditions underlying the performance forecasts and cautions regarding the use of those performance forecasts, please see “(5) Business forecast” of “1. Overview of Operating Results, Etc.” on page 4 of the attached material.

(How to obtain supplementary information on financial results and the contents of the financial results investor meeting)

The Company plans to hold a financial results meeting for investors and analysts on Friday, May 13, 2022.

The video and materials for the financial result meeting will be available on the IR Information section of the Company’s website (<https://www.cubesystem.co.jp/en/ir/library/results/>) promptly after the meeting.

Contents of the Attachment

Index

1. Overview of Operating Results, Etc.....	2
(1) Overview of operating results for the fiscal year under review	2
(2) Overview of financial position for the fiscal year under review	2
(3) Overview of cash flows for the fiscal year under review.....	3
(4) Profit distribution policy and dividends for the fiscal year under review and the next fiscal year	4
(5) Business forecast.....	4
2. Basic Policy Regarding the Adoption of Accounting Standards	5
3. Consolidated Financial Statements and Significant Notes Thereto.....	6
(1) Consolidated balance sheet	6
(2) Consolidated statement of income and consolidated statement of comprehensive income	8
(Consolidated statement of income).....	8
(Consolidated statement of comprehensive income)	9
(3) (Consolidated statement of changes in equity)	10
(4) Consolidated statement of cash flows	12
(5) Notes to consolidated financial statements	13
(Notes regarding going concern).....	13
(Changes in accounting policies)	13
(Segment information)	14
(Information per share)	14
(Material subsequent events)	14

1. Overview of Operating Results, Etc.

Effective from the beginning of the fiscal year under review, the Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations. For details, please see “3. Consolidated Financial Statements and Major Notes, (5) Notes to Consolidated Financial Statements (Changes in Accounting Policies).”

(1) Overview of operating results for the fiscal year under review

Economic and social activities in Japan continued to be limited throughout the fiscal year under review due to the state of emergency declaration and other measures taken to control the spread of COVID-19, but activities for economic recovery were also seen as public anxiety over the infectious disease was gradually relieved thanks to the development of vaccines and medications. The outlook for the Japanese economy, however, remains uncertain because of such factors as raw material prices on the rise due to the situation in Ukraine and dramatic yen depreciation.

Under such circumstances, some industries and companies considered the circumstances as an opportunity to grow their businesses and made active investments or forays into new business categories, accelerating the tendency of polarization among business communities. Corporate investment in informatization and IT has been driven by the launch of the Digital Agency, with the trend particularly observed in continuously-increasing demand for digital transformation from all scales of businesses. As a result, the information service industry, to which the Company belongs, has seen a solid increase in orders for AI- and IoT-based system integration, management and operation, in addition to initiatives for the digitalization of marketing and sales activities and the development of new network services that support those initiatives. On the other hand, the industry has been challenged by chronic and aggravating shortage of system and network engineers who can meet the demand for digitalization.

The Group has therefore worked to develop its personnel’s competence for digitalization and redeployed its human resources strategically, and such efforts have increased orders as system building projects for a shipping company and a telecommunications company, leading to a solid increase in consolidated net sales to ¥16,099 million (a year-on-year increase of 8.9%) for the fiscal year under review. Furthermore, resource concentration in the SI Business (Lift&Shift*), an initiative aimed at changing the Group’s business structure model, has helped raise the Group’s profitability and also led to the amplification of existing development projects, increasing the operating profit to ¥1,417 million (a year-on-year increase of 20.7%), ordinary profit to ¥1,432 million (a year-on-year increase of 10.6%) and profit attributable to owners of parent to ¥944 million (a year-on-year increase of 11.9%).

* Migrate customers’ systems from legacy environments to cloud ones (Lift), followed by proceeding with system restructuring in stages while optimizing for cloud environments (Shift).

Performance results by service lines are as shown below.

System Integration Services

Net sales increased to ¥11,968 million (a year-on-year increase of 13.6%) because of the increase of system building projects for the transportation industry, the increase of system building projects for GMS in the distribution industry, etc.

System Outsourcing Services

Net sales decreased to ¥1,834 million (a year-on-year decrease of 15.8%) because of the decrease of system building projects for credit card companies in the financial industry, the decrease of projects for data centers due to completion, etc.

Professional Services

Net sales increased to ¥2,296 million (a year-on-year increase of 10.7%) because of the increase of system building projects for the telecommunication industry, the increase of system building projects for the distribution industry, etc.

(2) Overview of financial position for the fiscal year under review

Assets

The current assets at the end of the fiscal year under review amounted to ¥7,805 million, an increase of ¥551 million compared with the end of the previous fiscal year. This result is mainly attributed to an increase of ¥590 million in cash and deposits. The total non-current assets at the end of the fiscal year under review amounted to ¥2,259 million, an increase of ¥68 million compared with the end of the previous fiscal year. This result is mainly attributed to an increase of ¥108 million in investment securities and a decrease of ¥44 million in deferred tax assets.

Consequently, the total assets amounted to ¥10,064 million, an increase of ¥620 million compared with the end of the

previous fiscal year.

Liabilities

The current liabilities at the end of the fiscal year under review amounted to ¥2,199 million, a decrease of ¥158 million compared with the end of the previous fiscal year. This result is mainly attributed to decreases of ¥139 million in income taxes payable and ¥40 million in short-term borrowings. The non-current liabilities at the end of the fiscal year under review amounted to ¥650 million, an increase of ¥79 million compared with the end of the previous fiscal year. This result is mainly attributed to an increase of ¥80 million in provision for share-based compensation.

Consequently, the total liabilities amounted to ¥2,850 million, a decrease of ¥78 million compared with the end of the previous fiscal year.

Net assets

The net assets at the end of the fiscal year under review amounted to ¥7,214 million, an increase of ¥698 million compared with the end of the previous fiscal year. This result is mainly attributed to increases of ¥438 million in treasury shares and ¥357 million in retained earnings.

Consequently, the equity ratio was 71.2% (68.6% at the end of the previous fiscal year).

(3) Overview of cash flows for the fiscal year under review

Cash and cash equivalents (hereafter, “net cash”) at the end of the fiscal year under review increased to ¥5,015 million, an increase of ¥568 million compared with the end of the previous fiscal year.

Status and factors for each cash flow category are as follows.

Cash flows from operating activities

Net cash provided from operating activities was ¥1,015 million (a year-on-year decrease of 2.6%). This result is mainly attributed to a decrease in the amount reported as profit before income taxes of ¥1,432 million and a decrease in the net cash of ¥579 million due to income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥134 million (¥58 million earned from investing activities in the previous fiscal year). This result is mainly attributed to the purchase of investment securities of ¥76 million and the purchase of non-current assets of ¥43 million.

Cash flows from financing activities

Net cash used in financing activities was ¥324 million (a year-on-year increase of 50.6%). This result is mainly attributed to the dividends paid of ¥282 million.

Changes in cash flow metrics for the Group are as shown below.

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Equity ratio (%)	68.6	71.2
Market-value-based equity ratio (%)	190.3	134.3
Cash flow to interest-bearing debt ratio (years)	0.3	0.2
Interest coverage ratio (times)	625.1	639.4

* Equity ratio: Equity capital / Total assets

Market-value-based equity ratio: Market capitalization / Total assets

Cash flow to interest-bearing debt ratio: Interest-bearing debt / Cash flow

Interest coverage ratio: Cash flow / Interest

(Notes) 1. All the metrics were calculated with consolidated financial statement values.

2. The market capitalization was calculated by multiplying the stock price at the end of the fiscal year under review with the total number of issued shares at the end of the fiscal year under review.

3. The cash flow refers to the cash flow from operating activities.

4. The interest-bearing debt refers to all of the liabilities on the consolidated balance sheet on which interest has been paid. The amount paid as stated on the consolidated statement of cash flows was used as the amount of the interest.

(4) Profit distribution policy and dividends for the fiscal year under review and the next fiscal year

We understand that returning profits to our shareholders is a fundamental responsibility to fulfill as a listed company and overriding management objective. We are determined to improve our business performance in order to maintain stable dividend payments and increase the Company's aggregate market value and thereby contribute to heightening the value of assets owned by our shareholders.

We make it our basic policy to aim at a consolidated dividend payout ratio of 35%, so we can ensure internal reserves needed for the Company to keep growing while maintaining stable dividend payments.

In light of the aforementioned policy and the Group's performance results, we are going to pay a year-end dividend of ¥15 per share.

That will make the total dividends for the fiscal year under review to be ¥23 per share, which includes the interim dividend of ¥8 per share that was paid out in December 2021.

For the next fiscal year, we are planning to pay dividends of ¥26 per share, which includes an interim dividend of ¥11 and a year-end dividend of ¥15 per share.

Internal reserves will be allocated to hire and train employees and as expenses for R&D activities aimed at developing new technologies and solutions.

(5) Business forecast

As for the outlook for the IT services industry, we anticipate that companies will expand their use of IT as they accelerate their efforts to create new business models and strengthen their competitiveness. As a player of the information service industry, the Group will remain committed to serving for society through its time-tested expertise on software engineering services. Under our employee mission statements of "Think and act based upon your own ambitions, and your business minds" and "Achieve business growth through planning-type business in addition to contract-type business" for VISION 2026, our medium-term management vision from the next fiscal year, we are going to focus on the five matters as listed below to maximize the value of customer assets and pursue the Group's further growth.

(i) Growing business scale and increasing profitability

There has been a steady increase in information and communication technology investment toward "digital transformation" (hereafter, "DX"), a process using data and digital technologies (cloud, AI, IoT, etc.) that will help companies transform their operation and management models for higher competitiveness and productivity.

We have aggressively invested in R&D activities to turn AI, blockchain, cloud services and other technologies into our own strengths. Furthermore, we continue our efforts to enhance our service menu and commercialize through business alliances with partner companies possessing new digital technologies.

The "VISION 2026" positions and promotes the Digital Business, the SI Business and the Enhance Business as our three cores built on our time-tested expertise and experience. We have grown those businesses and pursued higher profitability by discerning profitable domains and concentrating resources in them. For the Digital Business, we are going to maintain the approach of promoting DX projects and making aggressive technological investments toward creating a system consulting business and developing our own proprietary products. For the SI Business, we are going to establish a model named Lift&Shift through cloud conversion of the legacy environment (Lift) and the establishment of new methodology (Shift). We seek to increase collaborative projects with Slers/makers in the multi-cloud and micro-service areas, and also seek to develop specialty technologies through joint work with cloud vendors and grow our end-user business. For the Enhance Business, we are going to accelerate the ongoing initiatives we have implemented to realize high productivity and high profitability.

(ii) Heightening human resource value

Since engineering skills are directly related to strengthening the Group's competitiveness and differentiation, we consider the continuous improvement of system engineers' skills, employee health and work style reforms to be important management issues. In addition to enhancing training programs to strengthen our technical capabilities, we will strive to find growth opportunities by promoting projects that incorporate advanced technologies and improve our engineering capabilities through R&D.

Moreover, we are going to develop core personnel who are capable of leading the task of expanding our businesses. We are also going to promote the empowerment of female employees at our workplace and the going-global of some of our staff by offering them new assignments and introducing a follow-up and support cycle for such initiatives.

In the fiscal year ending March 31, 2023, we keep seeking to improve our hiring of new graduates and mid-career workers. While also sorting out career fields of employees and visualizing their skills, we are going to draw up and implement human resource development plans that will grow our businesses further. By conducting meetings on

human resource development, we look for ways to speed up our human resource development and secure talents who have the capability to run high-value-added services.

(iii) Enhancing quality

In the industry to which we belong, it is not a rarity that projects unexpectedly end up being non-profitable. Therefore, for highly important projects, we hold meetings of the System Development Committee to share risks and take countermeasures, not only at the time of estimates and proposals, but also during the company-wide process to ascertain and confirm the status of each process and determine the next step in the process. We are going to review our procedures and improve our quality management system in a continuous manner in order to ensure quality and heighten customer satisfaction and thereby reduce underperforming projects.

(iv) Improving corporate governance system

We believe that implementing the aforementioned high-priority measures and providing service solutions that meet the needs of customers require fair and efficient management, and we understand that such management requires enhancing corporate governance. We strive to build a system in which the Company's decision-making and communication processes function effectively and efficiently, and to enhance the effectiveness of management by ensuring appropriate and proper supervision, monitoring and accelerating decision-making. By improving our reporting and handling process concerning management risks, such as those related to business strategies, personnel strategies, compliance and security, we are going to heighten our preparedness and promote discussion and consideration of countermeasures for those risks.

In order to ensure sustainable business operations, we are also going to improve our business continuity plan (BCP) so it will cover a wider range of risks, including pandemics, disasters and geopolitical threats.

(v) Sustainability management

We ensure that each and every employee understands their duty and role in the development of society. We also aim to achieve both increased corporate value and solutions to social issues through our business, community contributions, and other activities. We are working seriously on compliance activities to establish a robust foundation for ethics. In addition, we try to mitigate the risks of corporate activities that could have a negative impact on society and the environment.

Our value creation model for contributing to the development of society all the while raising our own corporate value is built on those fundamental efforts and our solid "financial capital" and diverse "non-financial capital" that have been accumulated over decades.

Furthermore, in solving social issues and achieving the SDGs, we either directly identify issues and provide solutions through dialogue with our stakeholders, or indirectly contribute to society by providing high value-added services to our customers. For both approaches, the Group intends to realize sustainable growth through a value creation model by incorporating stakeholder feedback into management.

We will continue to draw growth strategies to realize our vision through dialogue with our stakeholders.

For the fiscal year ending March 31, 2023, the Group aims, by focusing on those matters, to post net sales of ¥17,300 million (a year-on-year increase of 7.5%), operating profit of ¥1,530 million (a year-on-year increase of 7.9%), ordinary profit of ¥1,545 million (a year-on-year increase of 7.8%) and profit attributable to owners of parent of ¥1,000 million (a year-on-year increase of 5.9%). Furthermore, the Group aims to achieve an ROE of 13% or higher.

2. Basic Policy Regarding the Adoption of Accounting Standards

The Group has adopted Japanese GAAP, because its shareholders, creditors, customers and most of its other interested parties reside in Japan and hence because the Group has not had a need to finance outside the country.

3. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated balance sheet

(Thousands of yen)

	As of March 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	4,467,541	5,058,095
Accounts receivable - trade	2,584,796	2,497,845
Contract assets	–	86,510
Work in process	83,449	16,439
Other	118,578	147,277
Allowance for doubtful accounts	(554)	(667)
Total current assets	7,253,810	7,805,500
Non-current assets		
Property, plant and equipment		
Buildings, net	153,931	123,399
Other, net	39,318	45,739
Total property, plant and equipment	193,249	169,139
Intangible assets	8,774	4,954
Investments and other assets		
Investment securities	1,169,963	1,278,721
Retirement benefit asset	162,786	194,324
Deferred tax assets	64,787	20,006
Other	590,820	591,884
Total investments and other assets	1,988,358	2,084,936
Total non-current assets	2,190,382	2,259,029
Total assets	9,444,193	10,064,530
Liabilities		
Current liabilities		
Accounts payable - trade	775,081	753,109
Short-term borrowings	280,000	240,000
Income taxes payable	370,648	231,054
Provision for bonuses	337,488	364,188
Provision for bonuses for directors (and other officers)	36,700	10,200
Provision for loss on orders received	–	3,382
Other	557,847	597,483
Total current liabilities	2,357,766	2,199,418
Non-current liabilities		
Provision for share-based compensation	228,511	309,136
Asset retirement obligations	138,007	138,558
Other	204,587	203,097
Total non-current liabilities	571,106	650,792
Total liabilities	2,928,872	2,850,211

(Thousands of yen)

	As of March 31, 2021	As of March 31, 2022
Net assets		
Shareholders' equity		
Share capital	768,978	768,978
Capital surplus	826,828	705,435
Retained earnings	5,649,012	6,006,514
Treasury shares	(1,197,851)	(759,459)
Total shareholders' equity	6,046,968	6,721,467
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	336,160	370,912
Foreign currency translation adjustment	428	21,851
Remeasurements of defined benefit plans	92,442	55,932
Total accumulated other comprehensive income	429,032	448,696
Non-controlling interests	39,319	44,155
Total net assets	6,515,320	7,214,319
Total liabilities and net assets	9,444,193	10,064,530

(2) Consolidated statement of income and consolidated statement of comprehensive income
(Consolidated statement of income)

(Thousands of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net sales	14,788,890	16,099,838
Cost of sales	11,948,226	12,649,671
Gross profit	2,840,663	3,450,166
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	171,930	197,130
Provision for bonuses for directors (and other officers)	36,700	10,200
Salaries and allowances	460,486	581,224
Provision for bonuses	52,976	73,039
Retirement benefit expenses	28,666	20,115
Provision of allowance for share-based compensation expenses	42,847	80,625
Provision of allowance for doubtful accounts	–	112
Rent expenses	153,654	198,191
Commission expenses	200,982	277,042
Other	517,553	594,599
Total selling, general and administrative expenses	1,665,796	2,032,280
Operating profit	1,174,867	1,417,886
Non-operating income		
Interest income	2,701	3,228
Dividend income	15,203	14,323
Gain on sale of investment securities	23,441	–
Consumption tax difference	5,099	6,997
Gain on investments in investment partnerships	70,950	–
Insurance claim income	6,538	5,741
Other	6,711	2,632
Total non-operating income	130,646	32,922
Non-operating expenses		
Interest expenses	1,691	1,659
Commission expenses	3,102	3,102
Foreign exchange losses	5,384	7,963
Loss on investments in investment partnerships	–	5,358
Other	10	0
Total non-operating expenses	10,189	18,084
Ordinary profit	1,295,324	1,432,724
Extraordinary losses		
Loss on valuation of investment securities	11,756	–
Total extraordinary losses	11,756	–
Profit before income taxes	1,283,567	1,432,724
Income taxes - current	485,294	441,728
Income taxes - deferred	(49,686)	40,971
Total income taxes	435,608	482,699
Profit	847,959	950,025
Profit attributable to non-controlling interests	3,955	5,329
Profit attributable to owners of parent	844,004	944,696

(Consolidated statement of comprehensive income)

(Thousands of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Profit	847,959	950,025
Other comprehensive income		
Valuation difference on available-for-sale securities	144,941	34,751
Foreign currency translation adjustment	9,524	21,422
Remeasurements of defined benefit plans, net of tax	128,849	(36,403)
Total other comprehensive income	283,315	19,770
Comprehensive income	1,131,275	969,795
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,126,533	964,360
Comprehensive income attributable to non-controlling interests	4,741	5,435

(3) (Consolidated statement of changes in equity)

Fiscal year ended March 31, 2021 (April 1, 2020 to March 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	768,978	825,557	5,056,043	(1,199,471)	5,451,107
Cumulative effects of changes in accounting policies					–
Restated balance	768,978	825,557	5,056,043	(1,199,471)	5,451,107
Changes during period					
Dividends of surplus			(251,034)		(251,034)
Gain on disposal of treasury shares		1,271			1,271
Profit attributable to owners of parent			844,004		844,004
Purchase of treasury shares				(128)	(128)
Disposal of treasury shares				1,748	1,748
Cancellation of treasury shares					–
Transfer from retained earnings to capital surplus					–
Net changes in items other than shareholders' equity					–
Total changes during period	–	1,271	592,969	1,620	595,860
Balance at end of period	768,978	826,828	5,649,012	(1,197,851)	6,046,968

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	191,219	(9,095)	(35,621)	146,502	35,178	5,632,788
Cumulative effects of changes in accounting policies						–
Restated balance	191,219	(9,095)	(35,621)	146,502	35,178	5,632,788
Changes during period						
Dividends of surplus						(251,034)
Gain on disposal of treasury stock						1,271
Profit attributable to owners of parent						844,004
Purchase of treasury shares						(128)
Disposal of treasury shares						1,748
Cancellation of treasury shares						–
Transfer from retained earnings to capital surplus						–
Net changes in items other than shareholders' equity	144,941	9,524	128,064	282,529	4,141	286,670
Total changes during period	144,941	9,524	128,064	282,529	4,141	882,531
Balance at end of period	336,160	428	92,442	429,032	39,319	6,515,320

Fiscal year ended March 31, 2022 (April 1, 2021 to March 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	768,978	826,828	5,649,012	(1,197,851)	6,046,968
Cumulative effects of changes in accounting policies			10,114		10,114
Restated balance	768,978	826,828	5,659,126	(1,197,851)	6,057,082
Changes during period					
Dividends of surplus			(280,310)		(280,310)
Gain on disposal of treasury stock		107,145			107,145
Profit attributable to owners of parent			944,696		944,696
Purchase of treasury shares				(263,481)	(263,481)
Disposal of treasury shares				156,335	156,335
Cancellation of treasury shares		(545,537)		545,537	–
Transfer from retained earnings to capital surplus		316,997	(316,997)		–
Net changes in items other than shareholders' equity					–
Total changes during period	–	(121,393)	347,387	438,391	664,385
Balance at end of period	768,978	705,435	6,006,514	(759,459)	6,721,467

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	336,160	428	92,442	429,032	39,319	6,515,320
Cumulative effects of changes in accounting policies						10,114
Restated balance	336,160	428	92,442	429,032	39,319	6,525,434
Changes during period						
Dividends of surplus						(280,310)
Gain on disposal of treasury stock						107,145
Profit attributable to owners of parent						944,696
Purchase of treasury shares						(263,481)
Disposal of treasury shares						156,335
Cancellation of treasury shares						–
Transfer from retained earnings to capital surplus						–
Net changes in items other than shareholders' equity	34,751	21,422	(36,510)	19,664	4,835	24,499
Total changes during period	34,751	21,422	(36,510)	19,664	4,835	688,884
Balance at end of period	370,912	21,851	55,932	448,696	44,155	7,214,319

(4) Consolidated statement of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from operating activities		
Profit before income taxes	1,283,567	1,432,724
Depreciation	59,340	60,230
Increase (decrease) in provisions	64,116	83,575
Increase (decrease) in assets and liabilities related to retirement benefits	8,055	(83,932)
Interest and dividend income	(17,905)	(17,552)
Interest expenses	1,691	1,659
Loss (gain) on investments in investment partnerships	(70,950)	5,358
Loss on valuation of investment securities (gain on reversal)	11,756	–
Loss (gain) on sale of investment securities	(23,441)	–
Insurance claim income	(6,538)	(5,741)
Decrease (increase) in trade receivables	(224,632)	3,049
Decrease (increase) in inventories	(57,329)	67,842
Decrease (increase) in prepaid expenses	53,341	(25,468)
Increase (decrease) in trade payables	87,063	(22,850)
Increase (decrease) in accrued consumption taxes	21,894	(1,419)
Increase (decrease) in accounts payable - other	54,469	10,434
Other, net	50,597	70,483
Subtotal	1,295,097	1,578,395
Interest and dividends received	14,542	18,536
Interest paid	(1,668)	(1,588)
Income taxes paid	(271,958)	(579,539)
Income taxes refund	7,055	–
Net cash provided by (used in) operating activities	1,043,068	1,015,804
Cash flows from investing activities		
Proceeds from redemption of securities	100,000	–
Purchase of property, plant and equipment	(39,306)	(43,991)
Purchase of investment securities	(128,526)	(76,925)
Proceeds from sale of investment securities	148,529	12,897
Purchase of membership	(12,800)	(5,000)
Other, net	(9,394)	(21,325)
Net cash provided by (used in) investing activities	58,501	(134,344)
Cash flows from financing activities		
Proceeds from short-term borrowings	40,000	–
Repayments of short-term borrowings	–	(40,000)
Decrease (increase) in treasury shares	(128)	–
Dividends paid	(250,033)	(282,665)
Dividends paid to non-controlling interests	(600)	(600)
Repayments of lease liabilities	(4,444)	(839)
Net cash provided by (used in) financing activities	(215,207)	(324,105)
Effect of exchange rate change on cash and cash equivalents	4,169	10,831
Net increase (decrease) in cash and cash equivalents	890,531	568,185
Cash and cash equivalents at beginning of period	3,557,010	4,447,541
Cash and cash equivalents at end of period	4,447,541	5,015,727

(5) Notes to consolidated financial statements

(Notes regarding going concern)

None

(Changes in accounting policies)

Adoption of accounting standard for revenue recognition, etc.

We have applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereafter, the “Revenue Recognition Accounting Standard”), etc., since the beginning of the fiscal year under review. Under the standard, revenue is recognized at the amount expected to be received in exchange for a promised good or service when the good or services is transferred to the customer. As a result, for the recognition of revenue from entrusted software development contracts, we changed the method from the percentage-of-completion method recognizing revenue at the time when the outcome of a project is considered in light of the progress to another method which recognizes revenue over time as the performance obligation is satisfied when the control of a good or service is transferred to the customer over time. We have measured progress toward complete satisfaction of the performance obligation based on the ratio of the project costs that occur by the end of the applicable reporting period to the expected total amount of costs for the projects. In the cases where it is difficult to rationally estimate the progress toward complete satisfaction of a performance obligation at the initial stage of the contract, we have recognized revenue according to the cost recovery method if we can expect to recover all the costs that will arise. With regard to service contracts under which we provide customers with a license purchased from an outside company, we have recognized revenue at a point in time when we transfer goods or services to the customer and, therefore, satisfy our performance obligation.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the fiscal year under review was added to or deducted from the opening balance of retained earnings of the fiscal year under review, and thus the new accounting policy was applied from such opening balance; provided, however, that the new accounting policy was not retrospectively applied to contracts for which nearly all the revenue amounts had been recognized according to the previous treatment in periods prior to the beginning of the fiscal year under review, by applying the method provided for in paragraph 86 of the Accounting Standard for Revenue Recognition. With regard to changes in contract conditions made prior to the beginning of the fiscal year under review, we conducted accounting treatment to those changes based on the post-change conditions in accordance with the method prescribed in the proviso (1) to paragraph 86 of the Revenue Recognition Accounting Standard and reflected the cumulative impact from applying the accounting treatment in the retained earnings at the beginning of the fiscal year under review.

Moreover, starting from the fiscal year under review, we have decided to include “accounts receivable - trade” that was presented under “current assets” on the consolidated balance sheet for the previous fiscal year in “accounts receivable - trade and contract assets.” However, in accordance with the transitional treatment prescribed in paragraph 89-2 of the Revenue Recognition Accounting Standard, we did not reclassify the consolidated financial statements for the previous fiscal year into those according to the new presentation method.

As a result, the balance at beginning of period on the consolidated balance sheet for the fiscal year under review is higher by ¥10 million compared with that on the consolidated balance sheet prepared prior to the adoption of Revenue Recognition Accounting Standard, etc. The net sales on the consolidated statement of income for the fiscal year under review is lower by ¥89 million, cost of sales lower by ¥75 million, the operating profit and the ordinary profit lower by ¥14 million, and profit before income taxes lower by ¥14 million.

The profit before income taxes on the consolidated statement of cash flows for the fiscal year under review is lower by ¥14 million. The balance of retained earnings at the beginning of the fiscal year under review on the consolidated statement of changes in equity is higher by ¥10 million due to the cumulative impact on the net assets at the beginning of the fiscal year under review.

Application of accounting standard for fair value measurement, etc.

Since the beginning of the fiscal year under review, the Group has adopted “Accounting Standard for Fair Value Measurement” (ASBJ No. 30, July 4, 2019), etc., and applied the new accounting policies in accordance with the transitional treatment prescribed in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ No. 10, July 4, 2019). There has been no influence on the consolidated financial statements.

(Segment information)

Previous Fiscal Year (April 1, 2020 to March 31, 2021) and the Fiscal Year Under Review (April 1, 2021 to March 31, 2022)

The information is omitted, as the Group has no segment other than the System Solution Service Business.

(Information per share)

(Yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net assets per share	476.52	531.14
Earnings per share	62.11	69.82

(Notes) 1. Diluted earnings per share is not presented, because there are no dilutive shares.

2. The bases of the calculated earnings per share are as shown below.

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Earnings per share		
Profit attributable to owners of parent (thousand yen)	844,004	944,696
Amount not attributable to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent pertaining to common shares (thousand yen)	844,004	944,696
Average number of common shares during the period (thousand shares)	13,589	13,529

(Note) 3. The bases of the calculated net assets per share are as shown below.

	As of March. 31, 2021	As of March 31, 2022
Total net assets (thousand yen)	6,515,320	7,214,319
Amount deducted from total net assets (thousand yen)	39,319	44,155
[Of which non-controlling interests (thousand yen)]	[39,319]	[44,155]
Net assets attributable to common shares at the end of the period (thousand yen)	6,476,000	7,170,164
Number of common shares at the end of the period used in calculation of net assets per share (thousand shares)	13,590	13,499

(Note) 4. The Company's shares held by the BIP trust account (357,600 shares for the previous fiscal year; 617,700 shares for the fiscal year under review) are included in the treasury shares which are deducted from the year-end total number of issued shares when the "net assets per share" is calculated. The Company's shares held by the BIP trust account (357,600 shares for the previous fiscal year; 509,325 shares for the fiscal year under review) are included in the treasury shares that are excluded from the calculation of the average number of shares during the period.

(Material subsequent events)

Not applicable.