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February 10, 2023

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 (Japanese GAAP)

Name of listed company: Information Services International-Dentsu, Ltd.
Listed exchange: Tokyo
Code number: 4812
URL: <https://www.isid.co.jp/english/index.html>
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Date of the general meeting of the shareholders: March 24, 2023
Date of scheduled payment of dividends: March 27, 2023
Date of scheduled filing of securities report: March 24, 2023
Supplementary explanatory documents: Yes
Presentation: Yes

(Amounts less than one million yen are rounded down.)

1. Consolidated Business Performance for the FY2022 (from January 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results

(% of change from previous year)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Net profit (loss) *	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY2022	129,054	15.1	18,590	35.3	18,354	38.8	12,598	40.8
FY2021	112,085	3.1	13,736	12.7	13,224	15.0	8,944	21.5

* Profit (loss) attributable to owners of parent

Note: Comprehensive profit: FY2022: 12,842 million yen (up 40.0%); FY2021: 9,174 million yen (up 22.7%)

	EPS	Diluted EPS	ROE	ROA	Ratio of operating profit to net sales
	(yen)	(yen)	(%)	(%)	(%)
FY2022	193.51	–	18.1	16.0	14.4
FY2021	137.26	–	14.3	12.9	12.3

Reference: Equity in earnings of affiliated companies: FY2022: (198) million yen; FY2021: (392) million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	BPS
	(million yen)	(million yen)	(%)	(yen)
FY2022	121,892	73,871	60.6	1,134.80
FY2021	108,188	65,471	60.5	1,004.41

Reference: Total shareholders' equity: FY2022: 73,838 million yen; FY2021: 65,452 million yen

(3) Consolidated Cash Flows

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of period
	(million yen)	(million yen)	(million yen)	(million yen)
FY2022	11,914	(3,132)	(5,419)	53,305
FY2021	16,981	(2,815)	(4,461)	49,748

2. Dividends

	Dividends per share					Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	First quarter	Second quarter	Third quarter	Fourth quarter	Total			
FY2021	(yen) –	(yen) 26.00	(yen) –	(yen) 30.00	(yen) 56.00	(million yen) 3,649	(%) 40.8	(%) 5.8
FY2022	–	33.00	–	45.00	78.00	5,082	40.3	7.2
FY2023 (forecast)	–	44.00	–	44.00	88.00		40.9	

3. Consolidated Forecasts for FY2023 (from January 1, 2023 to December 31, 2023)

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Net profit (loss) *		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
First half	67,130	9.2	9,730	1.0	9,734	0.9	6,684	(4.9)	102.73
Full year	137,000	6.2	20,000	7.6	20,000	9.0	14,000	11.1	215.16

*Profit attributable to owners of parent

Notes

- Changes in the scope of consolidation for significant subsidiaries (Changes in specified subsidiaries resulting in change in the scope of consolidation): None
- Changes in accounting policies, changes in accounting estimates and restatements:
 - Changes in accounting policies in accordance with revision of accounting standards: Yes
 - Changes in accounting policies other than 1) above: None
 - Changes in accounting estimate: None
 - Restatements: None

Note: For details, please refer to "(3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" of "2. Quarterly Consolidated Financial Statements and Major Notes" in the attached material.

- Issued and outstanding common stock

- Number of shares issued and outstanding at end of period, including treasury stock:
- Number of treasury stock at end of period:
- Average number of shares outstanding for each period:

FY2022	65,182,480 shares	FY2021	65,182,480 shares
FY2022	114,680 shares	FY2021	17,984 shares
FY2022	65,102,705 shares	FY2021	65,164,570 shares

(Reference) Summary of Non-consolidated Business Performance

1. Non-consolidated Business Performance for the FY2022 (from January 1, 2022 to December 31, 2022)

(1) Non-consolidated Operating Results

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Net Profit (loss)	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY2022	111,779	15.8	14,681	35.9	16,467	29.3	11,490	34.1
FY2021	96,535	4.7	10,802	18.5	12,735	20.8	8,565	32.7

	EPS	Diluted EPS
	(yen)	(yen)
FY2022	176.49	—
FY2021	131.44	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	BPS
	(million yen)	(million yen)	(%)	(yen)
FY2022	111,415	64,954	58.3	998.25
FY2021	99,820	57,874	58.0	888.14

Reference: Shareholders' equity: FY 2022: 64,954 million yen; FY 2021: 57,874 million yen

Consolidated financial report is outside the scope of audit procedures by certified public accountants or an audit corporation.

Explanation regarding the appropriate use of forecasts of business results

Forecast figures are projections based on information available at the time of release, and are not intended as a guarantee that the Company will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

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Note : In this report, "Dentsu Group" refers, in principle, to the entire corporate group.

I. Overview of Business Results

1. Analysis of Business Results

(1) Results for FY2022 (Ended December 31, 2022)

Effective from the beginning of the current consolidated fiscal year, we have adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020). For details, please refer to "II. Consolidated Financial Statement 3. Notes on Quarterly Consolidated Financial Statement (Changes in Accounting Policies)."

(Millions of yen)

	FY2021 (cumulative)	FY2022 (cumulative)	YoY	
			Variance	% change
Net sales	112,085	129,054	16,969	15.1%
Operating profit	13,736	18,590	4,854	35.3%
Operating profit margin	12.3%	14.4%	2.1p	—
Ordinary profit	13,224	18,354	5,130	38.8%
Profit attributable to owners of parent	8,944	12,598	3,654	40.8%
ROE	14.3%	18.1%	3.8p	—

During the current consolidated fiscal year under review (from January 1, 2022 to December 31, 2022), the Japanese economy continued to recover, albeit at a moderate pace, as normalization of economic and social activities progressed under countermeasures against COVID-19. As for the business environment surrounding ISID group, while some customers showed conservative movements against the backdrop of the prolonged situation in Ukraine and the rise in raw material prices, corporates' willingness to invest in utilizing digital technology for business and business innovation was strong and remained firm.

Amid these circumstances, the ISID Group launched long-term management vision, "Vision 2030," and started our three-year medium-term management plan, "ISID X(Cross) Innovation 2024," from the current consolidated fiscal year. In 2030, we aim to achieve net sales in the ¥300 billion range as a Group with diverse human resources, an abundance of technologies, and the various solutions. In the medium-term management plan (from the fiscal year ending December 31, 2022 to the fiscal year ending December 31, 2024), which is the first step toward achieving this goal, we have set quantitative targets of ¥150 billion in net sales, ¥18 billion in operating profit, 12% in operating profit margin, and 15% in ROE. We are working to accelerate business growth and achieve self-transformation based on our four activity policies of "Business domain expansion," "New capability acquisition," "Earnings model innovation," and "Management foundation innovation."

As a result of these efforts, for the current consolidated fiscal year, net sales was ¥129,054 million (up 15.1% year on year), operating profit was ¥18,590 million (up 35.3% year on year), ordinary profit ¥18,354 million (up 38.8% year on year) and profit attributable to owners of parent was ¥12,598 million (up 40.8% year on year).

Net sales increased in all four segments. In terms of profit, there was a significant increase in personnel expenses due to an increase in the number of employees and an increase in bonuses linked to business performance, as well as an extraordinary loss of ¥922 million on cancellation of a lease contract associated with a partial cancellation of an office lease contract. However, in addition to the effect of the increase in sales, the improvement in the gross profit margin, particularly for in-house software, resulted in a significant increase in profit at all levels.

As a result, we achieved record highs for the fifth consecutive year for both net sales and profits at each stage. We also achieved operating profit, operating profit margin, and ROE two years ahead of schedule, among the quantitative targets for the fiscal year ending December 31, 2024 set forth in the medium-term management plan.

The impact of the adoption of revenue recognition accounting standards for the fiscal year under review was an increase of ¥2,692 million in net sales and ¥1,318 million in operating profit.

Net sales, operating profit, and business results by reportable segment are as follows.

Net sales and operating profit (loss) by reportable segment

(Millions of yen)

Reportable segment	FY2021 (cumulative)			FY2022 (cumulative)			YoY Variance	
	Net sales	Operating profit	Operating margin	Net sales	Operating profit	Operating margin	Net sales	Operating profit
Financial Solutions	25,176	1,494	5.9%	28,125	1,611	5.7%	2,949	117
Business Solutions	14,958	2,655	17.7%	18,608	4,704	25.3%	3,650	2,049
Manufacturing Solutions	32,031	2,847	8.9%	36,453	4,179	11.5%	4,422	1,332
Communication IT	39,919	6,738	16.9%	45,867	8,095	17.6%	5,948	1,357
Total	112,085	13,736	12.3%	129,054	18,590	14.4%	16,969	4,854

Status of business operations by reportable segment

Financial Solutions

The main business of this segment is providing IT solutions that support various financial operations of financial institutions and other companies.

Net sales increased due to favorable sales of DX support projects for the banking industry, mainly in the area of customer contact reform, and an expansion in custom system development projects for the other financial industry. And operating profit increased due to the effect of the increase in sales though profitability declined due to an increase in the cost of sales for a certain project..

Business Solutions

The main business of this segment is providing IT solutions for business management operations, centered on accounting and human resources.

Net sales and operating profit increased due to the expansion of sales and introduction of our four key solutions, the POSITIVE, human resource management solution, the STRAVIS, consolidated accounting solution, the Ci*X, accounting solution and the CCH Tagetik, a business management solution, mainly in trading, retailing, and service industries.

Manufacturing Solutions

The main business of this segment is providing IT solutions for the entire product lifecycle, from product development and production, to sales and maintenance in the manufacturing industry.

Net sales and operating profit increased due to the expansion of projects for the introduction of the Teamcenter, a PLM solution that supports the digitization of engineering chains, mainly in the machinery and transportation equipment industry.

Communication IT

The main business of this segment is providing IT solutions that support companies optimize their value chains and business processes, from marketing to core business areas.

Net sales and operating profit increased due to an expansion of customer DX support projects in the marketing and core business areas to the service and pharmaceutical industries, as well as an expansion of projects for the implementation of SAP solutions, mainly in the manufacturing industries, against the backdrop of replacement demand for ERP systems.

(2) Forecasts for FY2023 (Ending December 31, 2023)

The outlook for the domestic and overseas economies is expected to remain uncertain due to the future trend of COVID-19, rising raw material prices, and accelerating inflation. Nevertheless, social and companies DX initiatives are continuing to progress, and demand for IT capital expenditures is expected to grow further. In the next fiscal year, we will strive for business growth while strengthening various investments to realize the transformation of ISID group, such as the strengthening of human resources and solutions.

Based on these conditions, the forecast of consolidated financial results for the next fiscal year is as follows.

Consolidated Earnings Forecasts for FY 2023 (from January 1, 2023 to December 31, 2023)

	(Millions of yen)	
	Amount	YoY % change
Net sales	137,000	6.2%
Operating profit	20,000	7.6%
Ordinary profit	20,000	9.0%
Profit attributable to owners of parent	14,000	11.1%

Note: Forecast figures are projections based on information available at the time of release, are not intended as a guarantee that we will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

2. Analysis of Financial Position

(1) Status of Assets, Liabilities and Net Assets

Assets

Total assets at the end of the current consolidated fiscal year increased by ¥13,704 million from the end of the previous consolidated fiscal year to ¥121,892 million. Current assets increased by ¥13,166 million from the end of the previous consolidated fiscal year to ¥103,099 million, due to an increase in contract assets associated with the adoption of revenue recognition accounting standards, etc. and expansion of business transactions, and an increase in advance payments, prepaid rental fees, associated with the provision of subscription-type services. Non-current assets increased by ¥538 million from the end of the previous consolidated fiscal year to ¥18,793 million, due to new acquisitions of software and intangible lease assets.

As stated in "III. Consolidated Financial Statement, 5. Notes on Quarterly Consolidated Financial Statement (Changes in Accounting Policies)," due to the adoption of the revenue recognition accounting standard, "Notes and accounts receivable - trade" which were included in "Current assets" in the consolidated balance sheets for the previous consolidated fiscal year, are included in "Notes and accounts receivable - trade and contract assets" from the fiscal year.

Liabilities

Total liabilities at the end of the current consolidated fiscal year increased by ¥5,305 million from the end of the previous consolidated fiscal year to ¥48,021 million. Current liabilities increased by ¥5,211 million from the end of the previous consolidated fiscal year to ¥45,687 million, mainly due to an increase in notes and accounts payable-trade and an increase in contract liabilities, which include maintenance fees. Non-current liabilities increased by ¥93 million from the end of the previous consolidated fiscal year to ¥2,333 million, mainly due to an increase in lease obligations due to increase in intangible lease assets.

As stated in "III. Consolidated Financial Statement, 5. Notes on Quarterly Consolidated Financial Statement (Changes in Accounting Policies)," due to the adoption of the revenue recognition accounting standard, "Advances received," which were included in "Current liabilities" in the consolidated balance sheet for the previous consolidated fiscal year, are included in "Contract liabilities" from the fiscal year.

Net assets

Net assets at the end of the current consolidated fiscal year increased by ¥8,399 million from the end of the previous consolidated fiscal year to ¥73,871 million, mainly as a result of an increase in retained earnings due to the recording of profit attributable to owners of parent, despite the payment of dividends from retained earnings.

(2) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as "funds") on a consolidated basis at the end of the fiscal year under review increased by ¥3,556 million from the end of the previous consolidated fiscal year to ¥53,305 million.

Cash flows from operating activities

Income before income taxes and minority interests and depreciation and amortization exceeded the increase in trade receivables and contract assets and the decrease in cash due to income taxes paid. As a result, net cash provided by operating activities increased by ¥11,914 million. Compared with the same period of the previous fiscal year, although income before income taxes and minority interests increased, there was a decrease of ¥5,067 million due mainly to an increase in trade receivables and contract assets.

As described in "III. Consolidated Financial Statement, 5. Notes on Quarterly Consolidated Financial Statement (Changes in Accounting Policies)," effective from the fiscal year under review, the "Change in notes to consolidated financial statements (increase) to trade receivables and contract assets (increase in ())" and "Increase (decrease) in advances received (decrease in ())" are included in "Increase (decrease) in contract liabilities (decrease in ())" in "Cash flows from operating activities" in the consolidated statement of cash flows for the previous fiscal year.

Cash flows from investing activities

Funds decreased by ¥3,132 million due to the acquisition of software and other fixed assets. Compared with the same period of the previous consolidated fiscal year, net cash used in investing activities increased by ¥317 million, mainly due to an increase in payments for the acquisition of software and other fixed assets.

Cash flows from financing activities

Net cash used in financing activities decreased by ¥5,419 million due to the payment of dividends and the repayment of lease obligations. Compared with the same period of the previous consolidated fiscal year, cash outflow increased by ¥958 million due to an increase in dividend payments.

Major indicators are as follows.

	FY2020	FY2021	FY2022
Shareholders' equity ratio (%)	61.3	60.5	60.6
Equity ratio based on market value (%)	209.6	233.4	209.5
Interest-bearing debt to cash flow ratio (years)	0.3	0.1	0.2
Interest coverage ratio (times)	250.3	489.9	533.1

Equity ratio = Equity capital/Total assets

3. Basic Policy Regarding Earnings Distribution, and Dividends for FY2022 and FY2023

We recognize that returning profits to shareholders is an important management issue, and we have established a basic policy for continually providing an appropriate and stable dividend, while retaining earnings to realize sustainable growth. Also, we set a target consolidated dividend payout ratio of 40% or more.

Based on the above policy, as announced on July 28, 2022, we plan to pay year-end dividend of ¥45 per share. Together with the already paid second quarter-end dividend, we plan to pay an annual dividend of ¥78 per share, up ¥22 from the previous year, for a consolidated dividend payout ratio of 40.3%.

The dividend forecast for the next fiscal year (ending December 31, 2023) is ¥88 per share (¥44 at the end of the first half and ¥44 at year-end) in accordance with the basic policy. Compared to the previous fiscal year, the dividend is resulting in a consolidated dividend payout ratio of 40.9%.

II. Basic Approach to Selection of Accounting Standards

Our group applies Japanese GAAP. The Company's policy is to respond to the application of IFRS (International Financial Reporting Standards) after considering various domestic and overseas conditions.

III. Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	3,882	4,909
Notes and accounts receivable - trade	23,219	—
Notes and accounts receivable - trade, and contract assets	—	30,377
Investments in leases	20	0
Merchandise and finished goods	30	121
Work in process	1,303	—
Raw materials and supplies	32	29
Advance payments to suppliers	14,063	17,315
Deposits paid	46,272	48,846
Other	1,113	1,503
Allowance for doubtful accounts	(3)	(3)
Total current assets	89,933	103,099
Non-current assets		
Property, plant and equipment		
Buildings, net	1,302	1,161
Tools, furniture and fixtures, net	337	488
Land	524	524
Leased assets, net	1,211	922
Construction in progress	10	0
Total property, plant and equipment	3,386	3,098
Intangible assets		
Software	4,081	4,680
Leased assets	701	983
Other	329	239
Total intangible assets	5,112	5,903
Investments and other assets		
Investment securities	3,040	3,182
Long-term loans receivable from subsidiaries and associates	325	352
Deferred tax assets	2,709	2,926
Leasehold and guarantee deposits	3,835	3,524
Other	173	159
Allowance for doubtful accounts	(327)	(354)
Total investments and other assets	9,756	9,791
Total non-current assets	18,255	18,793
Total assets	108,188	121,892

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	9,606	14,163
Lease liabilities	894	748
Accrued expenses	6,024	6,572
Income taxes payable	3,506	3,075
Advances received	13,632	—
Contract liabilities	—	14,296
Provision for loss on orders received	364	785
Provision for share awards	—	10
Asset retirement obligations	71	—
Other	6,376	6,034
Total current liabilities	40,476	45,687
Non-current liabilities		
Lease liabilities	1,062	1,173
Retirement benefit liability	54	52
Asset retirement obligations	953	854
Provision for share awards	—	54
Other	170	198
Total non-current liabilities	2,240	2,333
Total liabilities	42,716	48,021
Net assets		
Shareholders' equity		
Share capital	8,180	8,180
Capital surplus	15,285	15,270
Retained earnings	41,489	50,045
Treasury shares	(31)	(416)
Total shareholders' equity	64,925	73,080
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	155	234
Foreign currency translation adjustment	371	524
Total accumulated other comprehensive income	527	758
Non-controlling interests	19	32
Total net assets	65,471	73,871
Total liabilities and net assets	108,188	121,892

2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

[Consolidated Statements of Income]

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net sales	112,085	129,054
Cost of sales	72,068	82,267
Gross profit	40,016	46,786
Selling, general and administrative expenses	26,280	28,196
Operating profit	13,736	18,590
Non-operating income		
Interest and dividend income	42	58
Dividend income of insurance	20	44
Subsidy income	39	20
Gain on investments in investment partnerships	86	41
Miscellaneous income	42	23
Total non-operating income	230	188
Non-operating expenses		
Interest expenses	34	22
Share of loss of entities accounted for using equity method	392	198
Foreign exchange losses	75	119
Provision of allowance for doubtful accounts	199	27
Miscellaneous losses	40	57
Total non-operating expenses	742	424
Ordinary profit	13,224	18,354
Extraordinary income		
Gain on sale of investment securities	—	73
Compensation for forced relocation	—	270
Gain on change in equity	—	31
Total extraordinary income	—	374
Extraordinary losses		
Loss on valuation of investment securities	53	155
Loss on cancellation of rental contracts	—	922
Total extraordinary losses	53	1,078
Profit before income taxes	13,171	17,651
Income taxes - current	4,963	5,285
Income taxes - deferred	(737)	(244)
Total income taxes	4,225	5,040
Profit	8,945	12,610
Profit attributable to non-controlling interests	0	12
Profit attributable to owners of parent	8,944	12,598

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit	8,945	12,610
Other comprehensive income		
Valuation difference on available-for-sale securities	(39)	78
Foreign currency translation adjustment	268	152
Total other comprehensive income	229	231
Comprehensive income	9,174	12,842
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,174	12,829
Comprehensive income attributable to non-controlling interests	0	12

3. Consolidated Statements of Changes in Net Assets

The previous consolidated fiscal year (from January 1, 2021, to December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,180	15,285	35,832	(30)	59,268
Changes during period					
Dividends of surplus			(3,290)		(3,290)
Profit attributable to owners of parent			8,944		8,944
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares					
Purchase of shares of consolidated subsidiaries					
Change in scope of consolidation			4		4
Net changes in items other than shareholders' equity					
Total changes during period	—	—	5,657	(0)	5,656
Balance at end of period	8,180	15,285	41,489	(31)	64,925

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	194	102	297	22	59,587
Changes during period					
Dividends of surplus					(3,290)
Profit attributable to owners of parent					8,944
Purchase of treasury shares					(0)
Disposal of treasury shares					
Purchase of shares of consolidated subsidiaries					
Change in scope of consolidation					4
Net changes in items other than shareholders' equity	(39)	268	229	(2)	227
Total changes during period	(39)	268	229	(2)	5,884
Balance at end of period	155	371	527	19	65,471

The current consolidated fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,180	15,285	41,489	(31)	64,925
Cumulative effects of changes in accounting policies			63		63
Restated balance	8,180	15,285	41,553	(31)	64,988
Changes during period					
Dividends of surplus			(4,105)		(4,105)
Profit attributable to owners of parent			12,598		12,598
Purchase of treasury shares				(384)	(384)
Disposal of treasury shares		0		0	0
Purchase of shares of consolidated subsidiaries		(15)			(15)
Net changes in items other than shareholders' equity					
Total changes during period	—	(15)	8,492	(384)	8,092
Balance at end of period	8,180	15,270	50,045	(416)	73,080

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	155	371	527	19	65,471
Cumulative effects of changes in accounting policies					63
Restated balance	155	371	527	19	65,535
Changes during period					
Dividends of surplus					(4,105)
Profit attributable to owners of parent					12,598
Purchase of treasury shares					(384)
Disposal of treasury shares					0
Purchase of shares of consolidated subsidiaries					(15)
Net changes in items other than shareholders' equity	78	152	231	12	244
Total changes during period	78	152	231	12	8,336
Balance at end of period	234	524	758	32	73,871

4. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	13,171	17,651
Depreciation	2,989	3,103
Increase (decrease) in allowance for doubtful accounts	199	27
Increase (decrease) in retirement benefit liability	(21)	(7)
Increase (decrease) in provision for loss on orders received	59	420
Increase (decrease) in provision for share awards	—	65
Interest and dividend income	(42)	(58)
Interest expenses	34	22
Share of loss (profit) of entities accounted for using equity method	392	230
Loss (gain) on change in equity	—	(31)
Loss (gain) on sale of investment securities	—	(73)
Loss (gain) on valuation of investment securities	53	155
Loss (gain) on investments in investment partnerships	(86)	(41)
Decrease (increase) in trade receivables	1,377	—
Decrease (increase) in trade receivables and contract assets	—	(5,729)
Decrease (increase) in inventories	592	(69)
Decrease (increase) in advance payments to suppliers	(2,813)	(3,244)
Increase (decrease) in trade payables	1,779	4,531
Increase (decrease) in accrued expenses	1,687	510
Increase (decrease) in advances received	928	—
Increase (decrease) in contract liabilities	—	573
Increase (decrease) in accrued consumption taxes	725	(990)
Other, net	80	565
Subtotal	21,106	17,612
Interest and dividends received	41	60
Interest paid	(37)	(22)
Income taxes paid	(4,129)	(5,735)
Net cash provided by (used in) operating activities	16,981	11,914
Cash flows from investing activities		
Payments into time deposits	(208)	(181)
Proceeds from withdrawal of time deposits	110	156
Purchase of property, plant and equipment	(291)	(458)
Purchase of intangible assets	(2,148)	(2,430)
Payments for asset retirement obligations	(6)	(53)
Purchase of investment securities	(150)	(489)
Proceeds from sale of investment securities	—	129
Loan advances to subsidiaries and associates	(192)	—
Purchase of shares of subsidiaries and associates	—	(15)
Proceeds from distributions from investment partnerships	198	79
Payments for acquisition of businesses	(184)	—
Payments of leasehold and guarantee deposits	(33)	(11)
Proceeds from refund of leasehold and guarantee deposits	83	149
Other, net	6	(7)
Net cash provided by (used in) investing activities	(2,815)	(3,132)

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from financing activities		
Repayments of lease liabilities	(1,166)	(929)
Dividends paid	(3,290)	(4,105)
Dividends paid to non-controlling interests	(3)	—
Purchase of treasury shares	(0)	(384)
Net cash provided by (used in) financing activities	(4,461)	(5,419)
Effect of exchange rate change on cash and cash equivalents	242	194
Net increase (decrease) in cash and cash equivalents	9,947	3,556
Cash and cash equivalents at beginning of period	39,773	49,748
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	28	—
Cash and cash equivalents at end of period	49,748	53,305

5. Notes on Consolidated Financial Statement

(Notes regarding Assumption of a Going Concern)

Not applicable

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020; hereinafter referred to as the “Accounting Standard for Revenue Recognition”), etc. has been applied since the beginning of the current consolidated fiscal year. Due to this, when promised goods or services are transferred to customers, revenue is to be recognized in an amount which we expect to receive in exchange for those goods or services. With respect to made-to-order software, we previously applied the percentage-of-completion method (the percentage of completion is estimated based on the cost-to-cost method) for contracts whose outcome is deemed certain for the portion of work in progress, and applied the completed-contract method for other contracts. However, as a result of the application mentioned above, we have changed the methods so that with regard to obligations that are fulfilled over a certain period, the progress of work related to fulfillment of the obligations is estimated and revenue is recognized based on such estimate of the progress over that certain period. Progress rates related to the satisfaction of performance obligations are calculated based on the ratio of actual incurred costs to estimated total costs through the end of the period.

In cases where we are unable to reasonably estimate the extent of progress related to the satisfaction of performance obligations, but expects to recover the costs incurred, revenue is recognized on a cost recovery method.

The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment set forth in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retrospectively applying the new accounting policy to periods prior to the beginning of the current consolidated fiscal year was added to or subtracted from the beginning balance of retained earnings for the current consolidated fiscal year, and thus the new accounting policy was applied from such beginning balance. As a result, net sales and cost of sales for the current consolidated fiscal year decreased by ¥614 million each, due to the adoption of the cost recovery standard, while net sales and cost of sales increased by ¥3,306 million and ¥1,987 million, respectively, due to the application of the method of recognizing revenue over a certain period as the performance obligation is satisfied. Operating profit, ordinary profit and profit before income taxes and minority interests each increased by ¥1,318 million. The impact of retained earnings on the balance at the beginning of the fiscal year is insignificant.

Due to the application of the Accounting Standard for Revenue Recognition, etc., “Notes and accounts receivable - trade” which were included in “Current assets” in the consolidated balance sheets for the previous consolidated fiscal year, are included in “Notes and accounts receivable - trade and contract assets” from the current consolidated fiscal year. In addition, “Advances received,” which was presented in “Current liabilities” in the consolidated balance sheet for the previous fiscal year, is included in “Contract liabilities” from the current consolidated fiscal year.

In accordance with the transitional treatment set forth in Article 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous consolidated fiscal year have not been restated in accordance with the new approach to presentation.

(Application of the Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019; hereinafter referred to as the “Accounting Standard for Fair Value Measurement”), etc. has been applied since the beginning of the current consolidated fiscal year. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 of July 4, 2019), the new accounting policy set forth in the Accounting Standard for Fair Value Measurement, etc. is to be applied going forward. Note that this change has no effect on financial statements for the current consolidated fiscal year.

(Reportable Segment and others)

■Reportable Segment

1. The outline of any Reportable Segment

The reportable segments of our group are our constituent units for which separate financial information is available, and which are subject to regular review by the Board of Directors in order to decide how to allocate management resources and evaluate business performance.

Our Group is engaged in the information services business, including consulting services, custom system development, sales of in-house software and third-party software, outsourcing and operation and maintenance services, and sales of information equipment. We have business divisions by industry and solution, and each division formulates business strategies on a consolidated basis and develops business activities.

Accordingly, our group consists of segments by industry and solutions based on our business divisions. We have four reportable segments: Financial Solutions, Business Solutions, Manufacturing Solutions, and Communications IT.

The business operations of the four reportable segments are as follows.

Reportable Segment	Business content
Financial Solutions	The main business of this segment is providing IT solutions that support various financial operations of financial institutions and other companies.
Business Solutions	The main business of this segment is providing IT solutions for business management operations, centered on accounting and human resources.
Manufacturing Solutions	The main business of this segment is providing IT solutions for the entire product lifecycle, from product development and production, to sales and maintenance in the manufacturing industry.
Communication IT	The main business of this segment is providing IT solutions that support companies optimize their value chains and business processes, from marketing to core business areas.

2. Methods of calculating net sales, profit or loss, assets, liabilities and other items by reportable segment

The fiscal method for reportable segments is the same as the accounting method used for the preparation of the consolidated financial statements.

Income of reportable segments is based on operating profit.

Assets and liabilities are not allocated to reportable segments.

3. Information on net sales, income or loss, assets, liabilities and other items by reportable segment

The previous consolidated fiscal year (from January 1, 2021, to December 31, 2021)

(Millions of yen)

	Reportable Segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	25,176	14,958	32,031	39,919	112,085
Inter-segment sales and transfers	–	–	–	–	–
Total	25,176	14,958	32,031	39,919	112,085
Segment profit	1,494	2,655	2,847	6,738	13,736
Other items					
Depreciation and amortization	352	756	648	1,231	2,989

Notes: Total values for segment income match those for the operating profit on the “Consolidated Statements of Income.”

The current consolidated fiscal year (from January 1, 2022, to December 31, 2022)

(Millions of yen)

	Reportable Segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	28,125	18,608	36,453	45,867	129,054
Inter-segment sales and transfers	–	–	–	–	–
Total	28,125	18,608	36,453	45,867	129,054
Segment profit	1,611	4,704	4,179	8,095	18,590
Other items					
Depreciation and amortization	484	929	698	989	3,103

Notes: Total values for segment income match those for the operating profit on the “Consolidated Statements of Income.”

■Related Information

The previous consolidated fiscal year (from January 1, 2021, to December 31, 2021)

1. Information for each product and service

(Millions of yen)

	Consulting Services	Custom System Development	In-house Software	Third-party Software	Outsourcing, Operation and Maintenance Services	IT Equipment Sales and Others	Total
Sales to customers	7,200	29,245	22,089	33,767	12,085	7,696	112,085

2. Information by region

(1)Net sales

This information is omitted because sales to external customers in Japan account for more than 90% of net sales in the consolidated statements of income.

(2)Tangible fixed assets

This information is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheets.

3. Information by major customers

(Millions of yen)

Name of customer	Net Sales	Associated segment name
Dentsu Group Inc. and it's subsidiaries	23,978	Communication IT, Manufacturing Solutions, Financial Solutions, and Business Solutions

The current consolidated fiscal year (from January 1, 2022, to December 31, 2022)

1. Information for each product and service

(Millions of yen)

	Consulting Services	Custom System Development	In-house Software	Third-party Software	Outsourcing, Operation and Maintenance Services	IT Equipment Sales and Others	Total
Sales to customers	7,418	33,107	24,807	40,299	16,052	7,369	129,054

2. Information by region

(1)Net sales

This information is omitted because sales to external customers in Japan account for more than 90% of net sales in the consolidated statements of income.

(2)Tangible fixed assets

This information is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment on the consolidated balance sheets.

3. Information by major customers

(Millions of yen)

Name of customer	Net Sales	Associated segment name
Dentsu Group Inc. and it's subsidiaries	24,081	Communication IT, Manufacturing Solutions, Financial Solutions, and Business Solutions

Information on impairment loss on non-current assets by reportable segment

The previous consolidated fiscal year (from January 1, 2021, to December 31, 2021)

Not applicable.

The current consolidated fiscal year (from January 1, 2022, to December 31, 2022)

Not applicable.

Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

The previous consolidated fiscal year (from January 1, 2021, to December 31, 2021)

This information is omitted because it is not material.

The current consolidated fiscal year (from January 1, 2022, to December 31, 2022)

This information is omitted because it is not material.

Information on gain on negative goodwill by reportable segment

The previous consolidated fiscal year (from January 1, 2021, to December 31, 2021)

Not applicable.

The current consolidated fiscal year (from January 1, 2022, to December 31, 2022)

Not applicable.

(Per Share Information)

	FY2021	FY2022
Earnings Per Share	¥1,004.41	¥1,134.80
Book-value Per Share	¥137.26	¥193.51

Note

1: Diluted net profit per share is not presented because there are no dilutive shares.

2: We have introduced the Executive Compensation BIP Trust. Our shares owned by the Executive Compensation BIP Trust are included in treasury shares, which are deducted from the total number of issued shares. (96,000 shares in the current consolidated fiscal year)

3: The basis for calculating net profit per share is as follows.

	FY2021	FY2022
Profit attributable to owners of parent (Millions of yen)	8,944	12,598
Net income not applicable to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent related to common stock (Millions of yen)	8,944	12,598
Average number of shares outstanding for each period (thousand shares)	65,164	65,102

(Significant Subsequent Events)

Not applicable.