

Translation

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Summary of Consolidated Financial Results for the Fiscal Year Ended March 31, 2021 (Based on Japanese GAAP)

May 10, 2021

Company name: CRESCO LTD.
 Stock exchange listing: Tokyo
 Stock code: 4674 URL <https://www.cresco.co.jp/>
 Representative: President, Executive Officer Hiroyuki Nemoto
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 Scheduled date of Ordinary General Meeting of Shareholders: June 18, 2021
 Scheduled date to commence dividend payments: June 21, 2021
 Scheduled date to file annual securities report: June 21, 2021
 Preparation of supplementary material on financial results: No
 Holding of financial results meeting: Yes for analysts

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

(1) Consolidated operating results

Percentages indicate year-on-year changes

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2021	39,706	0.9	3,484	(2.0)	4,101	10.5	2,634	8.8
March 31, 2020	39,337	11.7	3,556	10.9	3,712	1.5	2,421	5.9

Note: Comprehensive income
 Fiscal year ended March 31, 2021: ¥4,024 million [92.6%]
 Fiscal year ended March 31, 2020: ¥2,088 million [11.8%]

Fiscal year ended	Earnings per share	Diluted earnings per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
	Yen	Yen	%	%	%
March 31, 2021	125.43	–	14.8	14.4	8.8
March 31, 2020	114.30	114.24	15.0	14.2	9.0

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

Fiscal year ended March 31, 2021: ¥18 million Fiscal year ended March 31, 2020: ¥41 million

Note: The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020. Earnings per share have been calculated under the assumption that the share split was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
March 31, 2021	30,342	19,485	64.2	926.96
March 31, 2020	26,770	16,185	60.4	770.72

Reference: Equity

As of March 31, 2021: ¥19,485 million As of March 31, 2020: ¥16,177 million

Note: The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020. Net assets per share have been calculated under the assumption that the share split was conducted at the beginning of the previous fiscal year.

(3) Consolidated cash flows

Fiscal year ended	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
March 31, 2021	3,155	(47)	(1,479)	11,015
March 31, 2020	3,693	2	(511)	9,384

2. Cash dividends

	Annual dividends per share					Total dividend payments	Dividend payout ratio (Consolidated)	Dividend on equity (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, 2020	–	36.00	–	18.00	–	750	31.5	4.8
Fiscal year ended March 31, 2021	–	18.00	–	20.00	38.00	798	30.3	4.5
Fiscal year ending March 31, 2022 (Forecast)	–	20.00	–	20.00	40.00		29.5	

Note: The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020. For the 2nd quarter-end of the fiscal year ended March 31, 2020, actual dividend values before the share split are stated. For the fiscal year ended March 31, 2020, total dividends per share is not stated because the implementation of the share split makes it impossible to perform a simple calculation.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

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, 2021	20,500	6.8	1,720	25.8	1,900	3.0	1,380	5.5	65.65
Full year	42,400	6.8	3,850	10.5	4,200	2.4	2,850	8.2	135.58

4. Notes

(1) Changes in significant subsidiaries during the period (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: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(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, 2021	23,000,000 shares	As of March 31, 2020	24,000,000 shares
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Number of treasury shares at the end of the period

As of March 31, 2021	1,978,723 shares	As of March 31, 2020	3,009,560 shares
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Average number of shares during the period

Fiscal year ended March 31, 2021	21,002,402 shares	Fiscal year ended March 31, 2020	21,181,025 shares
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Note: The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020. "Total number of issued shares at the end of the period (including treasury shares)," "number of treasury shares at the end of the period," and "average number of shares during the period" have been calculated under the assumption that the share split was conducted at the beginning of the previous fiscal year.

(Reference) Summary of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021)

(1) Non-consolidated operating results

Percentages indicate year-on-year changes

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2021	22,837	(0.9)	2,211	(11.2)	2,937	8.3	2,144	18.2
March 31, 2020	23,034	10.1	2,491	12.9	2,712	(1.7)	1,815	(2.1)

	Earnings per share	Diluted earnings per share
Fiscal year ended	Yen	Yen
March 31, 2021	102.12	–
March 31, 2020	85.69	85.65

(2) Non-consolidated financial position

	Total assets		Net assets		Equity ratio	Net assets per share
As of	Millions of yen		Millions of yen		%	Yen
March 31, 2021	25,205		15,997		63.5	761.01
March 31, 2020	22,203		13,205		59.4	628.72

Reference: Equity

As of March 31, 2021 ¥15,997 million As of March 31, 2020 ¥13,197 million

2. Forecast of non-consolidated financial results for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

Percentages indicate year-on-year changes

	Net sales		Ordinary profit		Profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2021	11,900	7.3	1,480	(5.5)	1,200	(2.1)	57.09
Full year	24,300	6.4	2,900	(1.3)	2,110	(1.6)	100.37

* **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**

(Warning on forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. The Company makes no promise regarding achievement of any content in the forward-looking statements. Actual business and other results may differ substantially due to various factors. Please refer to “(4) Outlook for the coming year, 1. Overview of operating results and others” on page 6 of the attached materials for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use of business results forecasts.

(Cash dividends after share split)

The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020. Dividends for the fiscal year ended March 31, 2020, that were converted prior to this share split, dividends for the fiscal year ended March 31, 2021, and the forecast of dividends for the fiscal year ending March 31, 2022 are as follows.

- Cash dividends for the fiscal year ended March 31, 2020
Dividends per share
2nd quarter-end: ¥36.00 Fiscal year-end: ¥36.00 Total: ¥72.00
- Cash dividends for the fiscal year ended March 31, 2021
Dividends per share
2nd quarter-end: ¥36.00 Fiscal year-end: ¥40.00 Total: ¥76.00
- Cash dividends for the fiscal year ending March 31, 2022 (Forecast)
Dividends per share
2nd quarter-end: ¥40.00 Fiscal year-end: ¥40.00 Total: ¥80.00

Contents

1. Overview of operating results and others.....	2
(1) Overview of operating results for the fiscal year under review.....	2
(2) Overview of financial position for the fiscal year under review.....	5
(3) Overview of cash flows for the fiscal year under review	5
(4) Outlook for the coming year.....	6
2. Basic policy on the selection of accounting standards.....	7
3. Consolidated financial statements and significant notes thereto.....	8
(1) Consolidated balance sheets	8
(2) Consolidated statements of income and consolidated statements of comprehensive income.....	10
(3) Consolidated statements of changes in equity	13
(4) Consolidated statements of cash flows	15
(5) Notes on consolidated financial statements	17
(Notes on the premise of going concern).....	17
(Segment information, etc.).....	17
(Per share information)	21

1. Overview of operating results and others

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

In order to achieve sustainable growth and greater corporate value by capitalizing on business opportunities, the Group started to uphold a new five-year vision, “CRESCO Ambition 2020,” adopting “Lead the Digital Transformation (DX)” as the corporate slogan, in April 2016. The fiscal year under review is its final year.

Three Themes of “CRESCO Ambition 2020”

- An enterprise group willing to take on challenges
- Sophisticated technological capabilities and reliable quality
- Each person shines at CRESCO

<< Corporate Slogan >>

Lead the Digital Transformation

Management Policy for FY2020

- Management in accordance with “CRESCO Ambition 2020”
- Securing orders by acquiring new customers and optimizing the business portfolio
- Expanding profits through the creation of high value-added businesses that utilize advanced technology
- Improving productivity and employee satisfaction by continuously taking on the challenge of work style reform
- Accelerating growth potential by promoting alliances

The business environment for the fiscal year under review (from April 1, 2020 to March 31, 2021) was severe, especially in the first half, due to the global spread of COVID-19. Although the execution of corporate IT strategies was accelerated gradually in the second half, uncertainty about the future and a risk of economic downturn, caused by the “third wave of COVID-19” since the New Year holidays and the second declaration of a state of emergency, could not be eliminated, and the momentum of corporate activities did not reach its previous level. In accordance with the business policy, the Group devoted its efforts to reviewing its customer portfolio and business structure in response to changes in the environment, securing orders mainly from existing customers and developing new businesses and services incorporating advanced technology (AI, cloud computing, etc.), and the Group also implemented aggressive measures, such as constructing a working from home system, promoting internal digital transformation (developing a teleworking system, making effective use of online communication tools, and reinforcing digital marketing) and optimizing office spaces. Nevertheless, following events occurred in operating activities and development operations to weigh on the financial results.

- Failure to cultivate new customers due to limitations on face-to-face sales activities
- Cancellations/suspensions/postponements of existing and new projects and requests for a reduction in unit price
- Temporary occurrence of standby employees and a decline in productivity during the period of transition to a teleworking system
- Occurrence of unprofitable projects

On the other hand, as a result of a rebound in stock prices year on year owing to the effects of the global injection of large-scale fiscal stimulus as reflation measures, the market value of financial instruments held by the Company rose in general, as a positive side effect.

As an initiative launched in the fiscal year under review, the Company made Enisias Co., Ltd. a new consolidated subsidiary on April 1, 2020 in order to expand cloud-related business, where further demand is

anticipated in the future. Besides, as a part of evangelist activities, the Group implemented promotional activities for various services and solutions through holding open seminars related to AI, cloud and RPA, and publishing technical books.

Topics for the fiscal year under review are as follows.

April 2020:

- Started a new organizational structure in light of the future business development.
- Made Enisias Co., Ltd. a consolidated subsidiary.

May 2020:

- Ranked 20th in the “Top 100 Companies with Good Standing” (version updated in April 2020).
- Started offering Creage SIEM+, a log analysis visualization service.
- Announced participation in the activity for eliminating barriers for remote working “Remote Work for Partners.”
- The Company’s employee read a paper on the “application of AI in medical imaging” at a workshop held by the IEICE (Institute of Electronics, Information and Communication Engineers).

June 2020:

- Started hosting the “Service Design Support Workshop,” an online workshop for experiencing the development of concepts and ideas for a new business.

July 2020:

- The Company’s employee published the book titled “(RPA UiPath Super-practical Techniques: Easy to Learn Basics.”

August 2020:

- Completed the disposal of treasury shares as restricted shares remuneration for directors of the Company and its subsidiaries.
- CREATIVE JAPAN, LTD., a subsidiary of the Company, announced “CLIP, a new COVID-19 infection prevention support system.”
- The Company’s employee published a book titled “Cramming for an AWS Certified Cloud Practitioner Exam.”

September 2020:

- Announced an initiative regarding a “new normal work style” through the Company’s internal digital transformation.

October 2020:

- The Company’s employee was certified as a “UiPath Japan MVP 2020” by UiPath.

November 2020:

- The Company’s employee gave a talk at “Agile Japan 2020.”

December 2020:

- Completed the disposal of treasury shares as restricted shares remuneration for employees of the Company.
- Announced contribution to SDGs through “Time Deposit Support” by Daiwa Next Bank, Ltd.
- CREATIVE JAPAN, LTD. started offering “CLIP, a new COVID-19 infection prevention support system.”
- Sold all shares of AIMS Co., Ltd., an affiliate of the Company, and excluded it from the scope of application of the equity method.

January 2021:

- Announced approval and support of the “Japan Digital Days.”
- The Company’s IR website was awarded by all major IR website ranking surveys.
- Announced the “CRESCO’s version of a job-based HR system” to start in April 2021.

February 2021:

- Announced the cancellation of treasury shares.
- Announced the completion of acquisition and cancellation of 7th series share acquisition rights through third party allotment.

March 2021:

- The Company’s employee gave a talk at the “INTERACTION 2021” held by the Information Processing Society of Japan.
- Certified as a “2021 recognized organization” under the Certified Health & Productivity Management Outstanding Organizations Recognition Program.
- Announced revisions to forecasts of fiscal year-end dividends (dividend increase).
- Announced organizational and personnel changes effective April 1, 2021.
- Made a contribution to Japanese Red Cross Society and Hokkaido University.

As a result of the above, both sales and profit increased, and for the fiscal year ended March 31, 2021, the Company recorded 39,706 million yen in net sales (0.9% increase from 39,337 million yen for the previous fiscal year), 3,484 million yen in operating profit (2.0% decrease from 3,556 million yen for the previous fiscal year), 4,101 million yen in ordinary profit (10.5% increase from 3,712 million yen for the previous fiscal year), and 2,634 million yen in profit attributable to owners of parent (8.8% increase from 2,421 million yen for the previous fiscal year).

Business results for each segment are as follows.

(i) Software development business

For the software development business, net sales rose 2.5% year on year to 32,965 million yen and segment profit (operating profit) increased 1.8% year on year to 3,566 million yen. A breakdown of net sales by industry reveals that net sales for the finance sector rose by 1,445 million yen year on year mainly owing to increase in system development and maintenance projects of banking and life insurance. In the public service sector, net sales fell by 1,452 million yen year on year mainly due to sharp drop in tourism demand and the loss of large projects related to human resources. In the distribution and other sector, net sales rose by 813 million yen year on year mainly due to the effects of the newly consolidated Enisias Co., Ltd.

(ii) Embedded software development business

For the embedded software development business, net sales fell 6.1% year on year to 6,694 million yen and segment profit (operating profit) decreased 15.6% year on year to 1,131 million yen. In terms of products, net sales of telecom system products rose by 14 million yen year on year. Net sales of car electronics fell by 148 million yen year on year. As for information appliances, etc. and other embedded products, net sales decreased by 304 million yen year on year mainly due to cancellations and postponements of projects by manufacturers.

(iii) Other

For other businesses such as the product sales business, net sales increased 0.6% year on year to 46 million yen, and a segment loss (operating loss) of 5 million yen (5 million yen of segment profit for the previous fiscal year) was recorded.

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

Total assets at the end of the fiscal year under review were 30,342 million yen, a year-on-year increase of 3,572 million yen.

Current assets rose by 1,935 million yen year on year to 20,079 million yen. This was mainly because, although securities and work in progress decreased by 105 million yen and 101 million yen, respectively, cash and deposits and notes and accounts receivable - trade increased by 1,632 million yen and 485 million yen, respectively. Non-current assets rose by 1,636 million yen year on year to 10,262 million yen. This was mainly because, although deferred tax assets and goodwill declined 495 million yen and 85 million yen, respectively, investment securities and lease and guarantee deposits increased by 2,170 million yen and 125 million yen, respectively.

Total liabilities at the end of the fiscal year under review were 10,856 million yen, a year-on-year increase of 272 million yen.

Current liabilities increased by 1,082 million yen year on year to 7,152 million yen. This was mainly because, although accrued consumption taxes and provision for loss on order received decreased by 55 million yen and 21 million yen, respectively, income taxes payable, accounts payable - other and provision for bonuses increased by 638 million yen, 212 million yen and 155 million yen, respectively.

Non-current liabilities decreased by 810 million yen year on year to 3,704 million yen. This was mainly because, although retirement benefit liability increased by 179 million yen, long-term borrowings and long-term accounts payable - other decreased by 649 million yen and 329 million yen, respectively.

Total net assets at the end of the fiscal year under review were 19,485 million yen, a year-on-year increase of 3,299 million yen. This was mainly because, although capital surplus decreased by 1,109 million yen, treasury shares decreased by 1,149 million yen and retained earnings and valuation difference on available-for-sale securities increased by 1,878 million yen and 1,382 million yen, respectively.

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

The balance of cash and cash equivalents at the end of the fiscal year under review was 11,015 million yen, a year-on-year increase of 1,630 million yen.

Cash flows from operating activities

There was a net cash inflow of 3,155 million yen from operating activities, compared to a net cash inflow of 3,693 million yen for the previous fiscal year.

This was primarily for the following reasons. While the Company recorded income taxes paid of 867 million yen and a decrease in long-term accounts payable - other of 329 million yen, the Company also recorded profit before income taxes of 4,013 million yen, a gain on valuation of derivatives of 338 million yen, depreciation of 265 million yen, an increase in accounts payable - other of 201 million yen and impairment losses of 175 million yen.

Cash flows from investing activities

There was a net cash outflow of 47 million yen from investing activities, compared to a net cash inflow of 2 million yen for the previous fiscal year.

This was primarily for the following reasons. While the Company recorded proceeds from redemption of investment securities of 5,317 million yen and proceeds from sale of investment securities of 888 million yen, the Company used 5,807 million yen for purchase of investment securities, 147 million yen for purchase of shares of subsidiaries resulting in change in scope of consolidation, 112 million yen for purchase of securities and 102 million yen for purchase of shares of subsidiaries and associates.

Cash flows from financing activities

There was a net cash outflow of 1,479 million yen from financing activities, compared to a net cash outflow of 511 million yen for the previous fiscal year.

This was primarily for the following reasons. The Company recorded 755 million yen in dividends paid and 713 million yen in repayments of long-term borrowings.

(4) Outlook for the coming year

In the business environment in FY2020, the prior trend changed completely due to the scourge of COVID-19. In Japan, economic activities gradually restarted after the lifting of the first state of emergency, and the economy is currently out of its worst period. From the 2nd quarter onward, the “new lifestyle” and the “new normal” is being adopted based on the “with corona” and “post-corona” periods. After the third wave, with the occurrence of mutant strains, a renewed increase in the number of new infections, the issue of the declaration of state of emergency for the second time, etc., there are inexhaustible concerns for the scourge of COVID-19. An expectation for the normalization of economy, however, has recently loomed largely because of an expansion in vaccination, and the future outlook has improved.

Regarding the economic outlook for FY2021, although it is undeniable that the economy is at the mercy of a progress in vaccination, in the BOJ Tankan survey in March 2021, the diffusion index (DI) for large manufacturing enterprises, a leading indicator, improved by 15 points to positive 5 in comparison with the number in the previous survey in December 2020, reaching the level before the spread of COVID-19 infection. In addition, the index improved by 4 points to negative 1 for large nonmanufacturing enterprises. While there is variance in the speed of recovery by industries, the business confidence has rebounded for three consecutive quarters.

The (planned) amount of invested in software in FY2021 turned positive relative to FY2020 both in the total for enterprises of all scales and in all industries, which suggests effects of reactionary moves in the wake of the suppression of IT investment and a progress in digital transformation (DX) in FY2020.

In April 2021, however, a declaration of a state of emergency was issued for the third time for Tokyo, Kyoto, Osaka and Hyogo prefectures, and infection preventive measures have been taken again focusing on requests for business suspension and shorter business hours in specific industries and a reduction in a flow of people, resulting in a situation where an adverse impact on the Japanese economy is concerned. Nonetheless, a transition to economic activities using IT is expected to continue to accelerate as a result of restriction on physical economic activities. Impacts on the IT industry, to which the Group belongs, is thus judged to be limited.

Since it is difficult to make a precise judgment on such impacts, we prepared a forecast of financial results (business plan) for the fiscal year ending March 31, 2022 based on judgments from information presently available that is considered reasonable and assumptions below.

- While the scourge of COVID-19 is unlikely to subside for the foreseeable future, there will be no significant impediment to business.

In the wake of the issuance of the third declaration of state of emergency, the scourge of COVID-19 is now considered to be unlikely to subside for the foreseeable future. The restriction on economic activities, however, is considered to be weakened steadily with the spread of vaccination not only in Japan but also in countries of the world. As online and face-to-face sales activities, remote development and working from home have become common, there is no significant impediment to the Group’s business. It is intended to work toward achieving business targets and creating values by trying to optimize the business portfolio of the entire Group in accordance with “CRESCO Group Ambition 2030,” a new vision for FY2021 onward, and the “Medium-term Business Plan 2023,” and positively providing IT services as our core business and digital solutions that offer new values.

- Business confidence is on an improving trend, despite some variability by sector/industry, and orders received are also expected to improve.

Business confidence is on an improving trend, despite some variability by sector/industry, reflecting an expectation for the normalization of economy with the spread of vaccination, and the momentum for IT investment has mostly recovered. In addition, as a result of an increase in demand for responding to new normal brought about by the scourge of COVID-19, the focus has greatly shifted to digital transformation, which realizes the creation of new business values, the enhancement of competitiveness and innovation, and demand is expected to accelerate further. IT investment related to travel and air transportation, which was particularly

affected by the scourge of COVID-19, is showing a return to a forward-looking positive stance. In the fiscal year under review, a serious decline in result is found with some customers of the Group and material uncertainty occurred about the placement of orders to the Group in the following fiscal year and afterward. As a result, the Group was forced to record impairment losses primarily on goodwill resulting from the acquisition of consolidated subsidiaries. For the new fiscal year, it is intended to receive orders steadily by sufficiently catering for diversifying and complicating needs through the optimization of customer portfolio in response to changes in environment as well as realizing innovation that maintains competitive advantages.

If any event that should be disclosed occurs due to any error in these assumptions, the Company will promptly announce it.

2. Basic policy on the selection of accounting standards

Taking into consideration the ability to compare not only consolidated financial statements for different accounting periods but also the Company to other companies, the Group has adopted, for the time being, a policy of creating consolidated financial statements based on Japanese generally accepted accounting principles.

As for the application of International Financial Reporting Standards (IFRS), the Company plans on appropriately responding after considering conditions both in Japan and overseas.

3. Consolidated financial statements and significant notes thereto

(1) Consolidated balance sheets

	(Thousands of yen)	
	As of March 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	9,407,848	11,039,932
Notes and accounts receivable - trade	7,369,657	7,855,304
Electronically recorded monetary claims - operating	20,902	15,608
Securities	564,629	459,292
Money held in trust	50,946	64,146
Merchandise and finished goods	26,879	37,315
Work in process	258,504	156,750
Supplies	1,582	1,655
Prepaid expenses	374,519	343,748
Other	70,835	106,008
Allowance for doubtful accounts	(1,995)	-
Total current assets	18,144,311	20,079,762
Non-current assets		
Property, plant and equipment		
Buildings	700,994	733,255
Accumulated depreciation	(375,788)	(415,947)
Buildings, net	325,206	317,308
Tools, furniture and fixtures	577,631	589,040
Accumulated depreciation	(418,620)	(464,390)
Tools, furniture and fixtures, net	159,010	124,650
Land	19,990	19,990
Leased assets	18,624	18,408
Accumulated depreciation	(12,127)	(12,290)
Leased assets, net	6,496	6,117
Total property, plant and equipment	510,703	468,066
Intangible assets		
Goodwill	580,360	494,413
Software	623,079	556,142
Other	12,795	12,950
Total intangible assets	1,216,235	1,063,506
Investments and other assets		
Investment securities	4,533,224	6,704,112
Leasehold and guarantee deposits	770,662	896,299
Insurance funds	106,373	124,480
Deferred tax assets	1,402,040	906,330
Other	194,151	207,127
Allowance for doubtful accounts	(107,319)	(107,209)
Total investments and other assets	6,899,132	8,731,141
Total non-current assets	8,626,072	10,262,714
Total assets	26,770,383	30,342,477

(Thousands of yen)

As of March 31, 2020

As of March 31, 2021

	As of March 31, 2020	As of March 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	1,815,951	1,856,920
Short-term borrowings	100,000	100,000
Current portion of long-term borrowings	663,336	671,934
Lease obligations	2,118	2,336
Accounts payable - other	469,093	681,171
Income taxes payable	418,051	1,056,596
Accrued business office tax	32,149	33,827
Accrued consumption taxes	607,202	551,465
Provision for bonuses	1,302,151	1,457,806
Provision for bonuses for directors (and other officers)	68,230	72,370
Provision for loss on order received	29,157	7,861
Other	562,720	660,073
Total current liabilities	6,070,161	7,152,363
Non-current liabilities		
Long-term borrowings	1,791,938	1,142,515
Long-term accounts payable - other	382,691	52,746
Lease obligations	4,934	4,341
Retirement benefit liability	2,253,345	2,432,926
Asset retirement obligations	81,384	71,696
Deferred tax liabilities	–	24
Total non-current liabilities	4,514,294	3,704,250
Total liabilities	10,584,455	10,856,613
Net assets		
Shareholders' equity		
Share capital	2,514,875	2,514,875
Capital surplus	4,473,108	3,363,262
Retained earnings	12,509,598	14,388,180
Treasury shares	(3,357,059)	(2,207,691)
Total shareholders' equity	16,140,523	18,058,626
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	45,838	1,427,859
Foreign currency translation adjustment	0	2,547
Remeasurements of defined benefit plans	(8,579)	(3,169)
Total accumulated other comprehensive income	37,259	1,427,236
Share acquisition rights	8,144	–
Total net assets	16,185,927	19,485,863
Total liabilities and net assets	26,770,383	30,342,477

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

Consolidated statements of income

	(Thousands of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net sales	39,337,600	39,706,144
Cost of sales	32,090,714	32,506,537
Gross profit	7,246,885	7,199,607
Selling, general and administrative expenses		
Advertising expenses	38,745	38,922
Remuneration, salaries and allowances for directors (and other officers)	1,487,637	1,579,614
Bonuses	114,659	84,749
Provision for bonuses	120,292	163,719
Provision for bonuses for directors (and other officers)	68,230	72,370
Retirement benefit expenses	43,156	32,879
Legal welfare expenses	224,139	241,243
Recruiting expenses	171,635	158,845
Entertainment expenses	54,998	18,447
Rent expenses on land and buildings	173,895	160,881
Supplies expenses	84,921	59,271
Amortization of goodwill	120,435	132,414
Enterprise tax	158,555	192,874
Provision of allowance for doubtful accounts	289	-
Other	828,810	778,917
Total selling, general and administrative expenses	3,690,404	3,715,150
Operating profit	3,556,481	3,484,456
Non-operating income		
Interest income	373,006	331,272
Dividend income	105,623	73,779
Gain on sale of securities	54,359	57,849
Gain on valuation of derivatives	-	338,955
Subsidy income	21,721	49,497
Share of profit of entities accounted for using equity method	41,757	18,437
Other	29,405	34,672
Total non-operating income	625,873	904,463
Non-operating expenses		
Interest expenses	5,576	6,351
Loss on valuation of securities	45,859	-
Investment advisory fee	56,325	65,409
Loss on valuation of derivatives	306,131	-
Commission for purchase of treasury shares	23,232	-
Share acquisition rights issuance costs	8,036	-
Donations	-	200,000
Other	24,309	16,104
Total non-operating expenses	469,471	287,865
Ordinary profit	3,712,883	4,101,054

(Thousands of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Extraordinary income		
Gain on sale of non-current assets	46	–
Gain on sale of investment securities	119,712	258,256
Gain on redemption of investment securities	–	896
Surrender value of insurance policies	33,647	28,710
Compensation income	3,000	–
Total extraordinary income	156,406	287,863
Extraordinary losses		
Loss on retirement of non-current assets	3,684	3,789
Loss on sale of investment securities	5,444	95,575
Loss on valuation of investment securities	230,952	15,308
Loss on redemption of investment securities	194,447	62,542
Impairment losses	–	175,188
Other	20,835	22,841
Total extraordinary losses	455,365	375,245
Profit before income taxes	3,413,924	4,013,673
Income taxes - current	1,011,275	1,492,406
Income taxes - deferred	(18,388)	(113,136)
Total income taxes	992,886	1,379,270
Profit	2,421,037	2,634,403
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	2,421,037	2,634,403

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	2,421,037	2,634,403
Other comprehensive income		
Valuation difference on available-for-sale securities	(366,024)	1,382,020
Foreign currency translation adjustment	0	2,547
Remeasurements of defined benefit plans, net of tax	33,982	5,409
Total other comprehensive income	(332,042)	1,389,977
Comprehensive income	2,088,994	4,024,380
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,088,994	4,024,380
Comprehensive income attributable to non-controlling interests	—	—

(3) Consolidated statements of changes in equity

Fiscal year ended March 31, 2020

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,514,875	4,292,000	10,832,849	(1,871,643)	15,768,082
Changes during period					
Dividends of surplus			(744,287)		(744,287)
Profit attributable to owners of parent			2,421,037		2,421,037
Purchase of treasury shares				(1,830,985)	(1,830,985)
Disposal of treasury shares		181,108		345,569	526,677
Cancellation of treasury shares					-
Net changes in items other than shareholders' equity					
Total changes during period	-	181,108	1,676,749	(1,485,416)	372,441
Balance at end of period	2,514,875	4,473,108	12,509,598	(3,357,059)	16,140,523

	Accumulated other comprehensive income				Share acquisition rights	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	411,863	-	(42,561)	369,302	-	16,137,384
Changes during period						
Dividends of surplus						(744,287)
Profit attributable to owners of parent						2,421,037
Purchase of treasury shares						(1,830,985)
Disposal of treasury shares						526,677
Cancellation of treasury shares						-
Net changes in items other than shareholders' equity	(366,024)	0	33,982	(332,042)	8,144	(323,898)
Total changes during period	(366,024)	0	33,982	(332,042)	8,144	48,543
Balance at end of period	45,838	0	(8,579)	37,259	8,144	16,185,927

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,514,875	4,473,108	12,509,598	(3,357,059)	16,140,523
Changes during period					
Dividends of surplus			(755,822)		(755,822)
Profit attributable to owners of parent			2,634,403		2,634,403
Purchase of treasury shares				(95)	(95)
Disposal of treasury shares		5,153		34,463	39,617
Cancellation of treasury shares		(1,115,000)		1,115,000	-
Net changes in items other than shareholders' equity					
Total changes during period	-	(1,109,846)	1,878,581	1,149,368	1,918,102
Balance at end of period	2,514,875	3,363,262	14,388,180	(2,207,691)	18,058,626

	Accumulated other comprehensive income				Share acquisition rights	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	45,838	0	(8,579)	37,259	8,144	16,185,927
Changes during period						
Dividends of surplus						(755,822)
Profit attributable to owners of parent						2,634,403
Purchase of treasury shares						(95)
Disposal of treasury shares						39,617
Cancellation of treasury shares						-
Net changes in items other than shareholders' equity	1,382,020	2,547	5,409	1,389,977	(8,144)	1,381,832
Total changes during period	1,382,020	2,547	5,409	1,389,977	(8,144)	3,299,935
Balance at end of period	1,427,859	2,547	(3,169)	1,427,236	-	19,485,863

(4) Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	3,413,924	4,013,673
Depreciation	245,733	265,274
Amortization of goodwill	120,435	132,414
Impairment losses	–	175,188
Increase (decrease) in allowance for doubtful accounts	–	(2,105)
Increase (decrease) in provision for bonuses	14,353	155,655
Increase (decrease) in provision for bonuses for directors (and other officers)	(2,370)	4,140
Increase (decrease) in provision for loss on order received	19,769	(21,295)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(14,800)	–
Increase (decrease) in retirement benefit liability	85,945	171,351
Interest and dividend income	(478,629)	(405,051)
Interest expenses	5,576	6,351
Loss (gain) on sale of securities	(54,359)	(57,849)
Loss (gain) on valuation of derivatives	306,131	(338,955)
Share of loss (profit) of entities accounted for using equity method	(41,757)	(18,437)
Loss on retirement of non-current assets	3,684	3,789
Loss (gain) on valuation of investment securities	230,952	15,308
Loss (gain) on sale of investment securities	(114,267)	(162,681)
Loss (gain) on redemption of investment securities	194,447	61,645
Decrease (increase) in trade receivables	331,376	(332,636)
Decrease (increase) in inventories	(52,209)	91,335
Increase (decrease) in trade payables	275,747	(49,758)
Increase (decrease) in accounts payable - other	(210,493)	201,311
Increase (decrease) in long-term accounts payable - other	(47,097)	(329,945)
Increase (decrease) in accrued consumption taxes	273,700	(69,995)
Other, net	83,819	114,030
Subtotal	4,589,613	3,622,757
Interest and dividends received	478,698	407,315
Proceeds from compensation	3,000	–
Interest paid	(5,053)	(7,204)
Income taxes paid	(1,373,188)	(867,435)
Net cash provided by (used in) operating activities	3,693,070	3,155,433

(Thousands of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from investing activities		
Payments into time deposits	(1,201)	(1,201)
Purchase of securities	(223,720)	(112,545)
Proceeds from sale of securities	625,349	190,939
Purchase of property, plant and equipment	(59,601)	(74,255)
Purchase of intangible assets	(343,816)	(109,441)
Purchase of investment securities	(3,714,063)	(5,807,359)
Proceeds from sale of investment securities	1,295,067	888,196
Proceeds from redemption of investment securities	2,389,143	5,317,304
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(147,915)
Purchase of shares of subsidiaries and associates	–	(102,000)
Proceeds from cancellation of insurance funds	107,367	40,116
Other, net	(72,117)	(129,242)
Net cash provided by (used in) investing activities	2,407	(47,405)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	60,000	–
Proceeds from long-term borrowings	2,000,000	–
Repayments of long-term borrowings	(489,586)	(713,284)
Repayments of lease obligations	(2,378)	(2,169)
Dividends paid	(743,985)	(755,592)
Purchase of treasury shares	(1,854,218)	(95)
Proceeds from disposal of treasury shares from exercise of subscription rights to shares	514,829	–
Other, net	3,405	(8,144)
Net cash provided by (used in) financing activities	(511,933)	(1,479,286)
Effect of exchange rate change on cash and cash equivalents	–	2,140
Net increase (decrease) in cash and cash equivalents	3,183,544	1,630,882
Cash and cash equivalents at beginning of period	6,201,204	9,384,749
Cash and cash equivalents at end of period	9,384,749	11,015,631

(5) Notes on consolidated financial statements

(Notes on the premise of going concern)

There is nothing to report.

(Segment information, etc.)

[Segment information]

1. Summary of reportable segments

The Company's reportable segments are based on those units within the Company where separate financial information is available and where the Board of Directors periodically reviews matters such as the distribution of management resources and financial performance.

The Company has established divisions for product and service type, and each division creates a comprehensive strategy for the products and services it handles and conducts related business activities.

Therefore, the Company's product and service segments are based on its divisions. There are two reportable segments—software development segment and embedded software development segment.

Details of each segment's business are provided below.

Business segment	Main products and role
Software development business	Application development, IT infrastructure system development, solutions and services
Embedded software development business	Telecom system, embedded software development for telecom systems, car electronics, and digital home appliances

2. Method for calculating net sales, profit (loss), assets, liabilities, and other items for each segment

The accounting treatment for business segments reported is generally the same as those given in "Significant Matters Forming the Basis of Preparing the Consolidated Financial Statements."

Segment profit is based on operating profit.

Internal earnings and transfers between segments are based on actual market prices.

3. Information regarding amounts of net sales, profit (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2020

(Thousands of yen)

	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Amounts on consolidated financial statements (Note 3)
	Software development business	Embedded software development business	Total				
Net sales							
Sales to external customers	32,158,461	7,132,652	39,291,114	46,486	39,337,600	–	39,337,600
Inter-segment sales or transactions	9,050	–	9,050	9,035	18,085	(18,085)	–
Total sales	32,167,512	7,132,652	39,300,164	55,522	39,355,686	(18,085)	39,337,600
Segment profit	3,502,391	1,339,907	4,842,298	5,065	4,847,363	(1,290,882)	3,556,481
Segment assets	13,498,808	3,391,340	16,890,149	77,997	16,968,147	9,802,236	26,770,383
Other items							
Depreciation	176,219	37,956	214,175	1,135	215,311	30,421	245,733
Increase in property, plant and equipment and intangible assets	167,467	13,079	180,546	–	180,546	1,487	182,034

Notes: 1. The “Other” segment refers to business segments not included in reportable segments and includes product sales business.

2. The following adjustments have been made.

- (1) The negative 1,290,882 thousand yen adjustment to segment profit includes 6,173 thousand yen in eliminations for inter-segment business and negative 1,297,055 thousand yen in all corporate expenses not allocated to reportable segments. All corporate expenses are mainly general and administrative expenses not attributed to reportable segments.
- (2) The 9,802,236 thousand yen adjustment to segment assets is all corporate assets not allocated to reportable segments. All corporate assets are primarily unused operating funds not attributed to reportable segments (cash and deposits and securities), long-term investments funds (investment securities), and assets, etc. related to administrative divisions.
- (3) The 1,487 thousand yen adjustment to increase in property, plant and equipment and intangible assets is for capital expenditures by the headquarters’ administrative divisions.

3. Segment profit is calculated by making adjustments to the operating profit appearing in the consolidated statement of income.

Fiscal year ended March 31, 2021

(Thousands of yen)

	Reportable segments			Other (Note 1)	Total	Adjustment (Note 2)	Amounts on consolidated financial statements (Note 3)
	Software development business	Embedded software development business	Total				
Net sales							
Sales to external customers	32,965,251	6,694,149	39,659,401	46,743	39,706,144	–	39,706,144
Inter-segment sales or transactions	7,326	–	7,326	492	7,819	(7,819)	–
Total sales	32,972,578	6,694,149	39,666,727	47,236	39,713,964	(7,819)	39,706,144
Segment profit	3,566,567	1,131,529	4,698,097	(5,176)	4,692,920	(1,208,463)	3,484,456
Segment assets	13,124,900	2,443,934	15,568,835	90,605	15,659,440	14,683,036	30,342,477
Other items							
Depreciation	203,855	41,426	245,281	704	245,986	19,287	265,274
Increase in property, plant and equipment and intangible assets	165,824	16,804	182,629	375	183,005	5,079	188,085

Notes: 1. The “Other” segment refers to business segments not included in reportable segments and includes product sales business.

2. The following adjustments have been made.

- (1) The negative 1,208,463 thousand yen adjustment to segment profit includes 5,229 thousand yen in eliminations for inter-segment business and negative 1,213,692 thousand yen in all corporate expenses not allocated to reportable segments. All corporate expenses are mainly general and administrative expenses not attributed to reportable segments.
- (2) The 14,683,036 thousand yen adjustment to segment assets is all corporate assets not allocated to reportable segments. All corporate assets are primarily unused operating funds not attributed to reportable segments (cash and deposits and securities), long-term investments funds (investment securities), and assets, etc. related to administrative divisions.
- (3) The 5,079 thousand yen adjustment to increase in property, plant and equipment and intangible assets is for capital expenditures by the headquarters’ administrative divisions.

3. Segment profit is calculated by making adjustments to the operating profit appearing in the consolidated statement of income.

(Related information)

Fiscal year ended March 31, 2020

1. Information by product and service

This has been omitted since the same information is provided in segment information.

2. Information by geographical area

(1) Net sales

This has been omitted because net sales to external Japanese customers account for more than 90% of net sales on the consolidated statement of income.

(2) Property, plant and equipment

This has been omitted because the value of property, plant and equipment in Japan accounts for more than 90% of the value of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

(Thousands of yen)

Name of customer or individual	Net sales	Related segment name
IBM Japan, Ltd.	5,168,020	Software development business

Fiscal year ended March 31, 2021

1. Information by product and service

This has been omitted since the same information is provided in segment information.

2. Information by geographical area

(1) Net sales

This has been omitted because net sales to external Japanese customers account for more than 90% of net sales on the consolidated statement of income.

(2) Property, plant and equipment

This has been omitted because the value of property, plant and equipment in Japan accounts for more than 90% of the value of property, plant and equipment on the consolidated balance sheet.

3. Information by major customer

(Thousands of yen)

Name of customer or individual	Net sales	Related segment name
IBM Japan, Ltd.	5,032,470	Software development business

(Information on impairment loss of non-current assets by reportable segment)

Fiscal year ended March 31, 2020

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Impairment losses	–	–	–	–	–	–

Fiscal year ended March 31, 2021

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Impairment losses	170,175	5,012	175,188	–	–	175,188

(Information on amortization and unamortized balance of goodwill by reportable segment)

Fiscal year ended March 31, 2020

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Amortization of goodwill	120,435	–	120,435	–	–	120,435
Unamortized balance at the fiscal year-end	580,360	–	580,360	–	–	580,360

Fiscal year ended March 31, 2021

(Thousands of yen)

	Reportable segments			Other	Unallocation or elimination	Total
	Software development business	Embedded software development business	Total			
Amortization of goodwill	132,414	–	132,414	–	–	132,414
Unamortized balance at the fiscal year-end	494,413	–	494,413	–	–	494,413

(Information on gain on bargain purchase by reporting segment)

There is nothing to report.

(Per share information)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net assets per share	770.72 yen	926.96 yen
Earnings per share	114.30 yen	125.43 yen
Diluted earnings per share	114.24 yen	– yen

Notes: 1. Diluted earnings per share for the fiscal year under review are not indicated because there is no potential share that has diluting effects.

2. The Company conducted a 2-for-1 share split as of February 1, 2020. Net assets per share, earnings per share, and diluted earnings per share were calculated on the assumption that the said share split had been conducted at the beginning of the previous fiscal year.

3. The basis of calculating earnings per share and diluted earnings per share is as follows:

Item	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Earnings per share		
Profit attributable to owners of parent (Thousands of yen)	2,421,037	2,634,403
Amounts not attributable to common shareholders (Thousands of yen)	–	–
Profit attributable to owners of parent related to common shares (Thousands of yen)	2,421,037	2,634,403
Average number of common shares during the period (Shares)	21,181,025	21,002,402
Diluted earnings per share		
Increase in common shares (Shares)	10,639	–
[Of the above, share acquisition rights (Shares)]	[10,639]	[–]
Overview of potential shares not included in the calculation of the diluted earnings per share because of the lack of dilution effects	–	7th Series Share Acquisition Rights 4,470 units (Common share 894,000 shares) All these share acquisition rights were acquired and cancelled as of February 24, 2021.

4. The basis of calculating net assets per share is as follows:

Item	As of March 31, 2020	As of March 31, 2021
Total net assets (Thousands of yen)	16,185,927	19,485,863
Amount deducted from total net assets (Thousands of yen)	8,144	–
[Of the above, share acquisition rights (Thousands of yen)]	[8,144]	[–]
Net assets related to common shares at the fiscal year-end (Thousands of yen)	16,177,783	19,485,863
Number of common shares at the fiscal year-end used for the calculation of net assets per share (Shares)	20,990,440	21,021,277

(Material subsequent events)

(Changes in reportable segments)

The Company resolved at the meeting of the Board of Directors held on May 10, 2021 to change reportable segments for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022).

1. Details of changes

Whereas the Company has had two reportable segments of “Software development business” and “Embedded software development business,” it was decided to change them to “IT services business” and “Digital solutions business” for the fiscal year ending March 31, 2022 (from April 1, 2021 to March 31, 2022), with an eye toward achieving full-scale growth of digital solutions business, in implementing the “Medium-term Business Plan 2023,” which starts in the fiscal year ending March 31, 2022.

(1) Segmentation before change

Segment	Subsegments	Breakdown
Software development business	Financial services	Banking, securities, insurance, etc.
	Public services	Travel, human resources, logistics, airline, railway, electricity, broadcast, medical, etc.
	Distribution and other	Retail business, real estate, Information and communication, manufacturing, etc.
Embedded software development business	Telecom system	Mobile devices, etc.
	Car electronics	Digital meters, center displays, etc.
	Information appliances and other	Digital home appliances, medical equipment, control systems, etc.
Others (product sales business, etc.)	–	Products of CRESCO Wireless, Inc.

(2) Segmentation after change

Segment	Subsegments	Breakdown
IT services	Enterprise business	Information and communication, advertising, distribution services, transport, placement and dispatching, public services, resources and energy, construction and real estate, travel and hotels, medical and healthcare, etc.
	Financial services	Banking, insurance, etc.
	Manufacturing	Automotive, transport equipment, machinery, electronics, etc.
Digital solutions	–	“Creage,” “Intelligent Folder,” RPA, etc.

Notes: 1. “IT services” refers to comprehensive services that include consulting as well as IT planning, development, and maintenance.

2. “Digital solutions” refers to solution groups consisting of products and services supporting customers in realizing digital transformation (DX).

2. Timing of changes

New reportable segments will begin to be used in the consolidated financial results for the first quarter of the fiscal year ending March 31, 2022 (to be released in August 2021).