



Integrated Report 2023

Apr. 1, 2022–Mar. 31, 2023

A Future for People and IT



NSD Co., Ltd.

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To be an extremely unique entity that combines practice and research, including the establishment of true computer science

From our founding prospectus of March 1969

Technical capabilities

NSD is a group of engineers, with system engineers accounting for more than 95% of personnel. We have accumulated technical expertise through our strong track record in system development, and are highly skilled in the application of advanced technologies.

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Insightful understanding

We have assimilated knowledge of our customers' operations by our long-standing relationships with them. We possess a deep understanding of our customers' challenges, and leverage our strengths as an independent system integrator to provide them with optimal IT solutions.

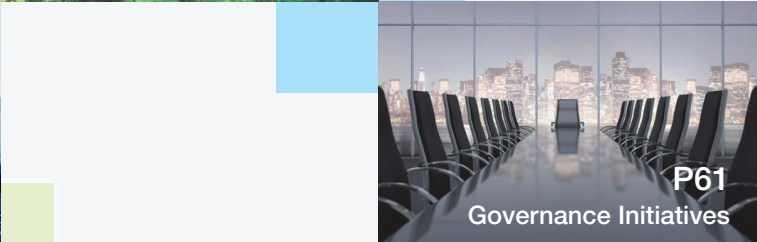
= *Reliability*

Our high-level technical capabilities and insightful understanding have resulted in trusting relationships with customers. We have therefore been doing business with many of our customers for a long period of time.



Create the Future for People Bring People to the Future

P19
President's Message



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Management Philosophy

The NSD Group contributes to the sound development of society by pushing the boundaries of IT to create and provide new solutions beneficial to people and society, while viewing coexistence and co-prosperity with employees, customers, and shareholders as the very essence of our corporate activities.

Editorial Policy

This integrated report touches on important financial and non-financial information while highlighting topics that we want to convey to shareholders, investors, and other stakeholders, so that they have a better understanding of the initiatives undertaken by the NSD Group to continuously enhance corporate value. For more information, please visit our website.

Reporting Period: April 1, 2022 to March 31, 2023 (This report includes some information pertaining to after the reporting period.)
Reporting Scope: NSD Co., Ltd., and NSD Group companies

Disclaimer

This report is intended to provide information on the NSD Group's efforts to enhance corporate value, and is not intended to solicit the purchase or sale of shares. Any forward-looking statements in this report, such as performance forecasts, are based on information available to the Group and the outlook at the time that this report was produced. NSD makes no promise that it will achieve these forward-looking statements which may also be subject to change without prior notice. NSD shall not be responsible for any damages resulting from the use of this report.

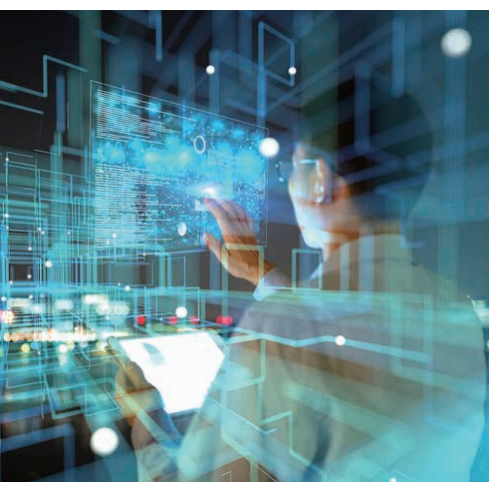
The source of NSD's strengths lies within our valued customers who place their trust in us, as well as in our highly professional employees



Stable customer base

For more than half a century since our founding in 1969, NSD has worked on system development for many customers, including financial institutions, manufacturers, and social infrastructure companies.

At the same time, we have built a relationship of trust with our customers and established a business model for receiving orders continually. These so-called "lifelong customers" are the NSD's strengths.



Outstanding technical capabilities

For over half a century, we have accumulated a wealth of technical knowledge and expertise through the development of a wide variety of systems for a large number of customers.

In more recent years, we have been refining our ability to apply advanced technologies, such as AI, IoT, and robotic process automation (RPA), to our business, leveraging these in system development as well as actively using them in collaboration with customers to create solutions to their business challenges.



Human resources that inspire trust

We have around 4,000 highly specialized system engineers who can meet the diverse needs of our customers, from individual consulting to mission-critical large-scale system development.

We also develop our employees into true professionals by improving not only their technical skills but also their soft skills. Having such employees helps to build relationships of trust with customers, creating a virtuous business cycle.

What makes NSD different

"We can trust NSD!"—words we often have the pleasure of hearing from our customers. The strengths of NSD lie not only in our customer base and technical capabilities, but also in the strong sense of responsibility on the part of our employees. Such employees sincerely confront the challenges faced by our customers and do their utmost to solve them. Through repeating this process, we have built a solid relationship of trust with our customers, leading to feedback of the kind mentioned above.

¥77.9 billion

Net sales



Operating income

¥12.5 billion



Operating margin

16.1%

EBITDA margin

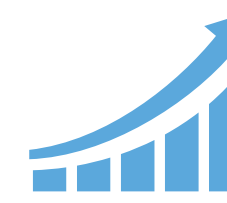
17.1%



¥219.2 billion

Market capitalization

(as of September 30, 2023)



Dividend payout ratio

50.6%

Total return ratio

74.9%



ROE

19.3%

TSR

241.5%



Year established

1969

4,448

Employees

(as of September 30, 2023)



SE ratio^{*2}

95.2%



Turnover ratio^{*3}

3.5%



*1: The above figures are in principle based on fiscal 2022 results.

*2: The ratio of system engineers to non-consolidated employees.

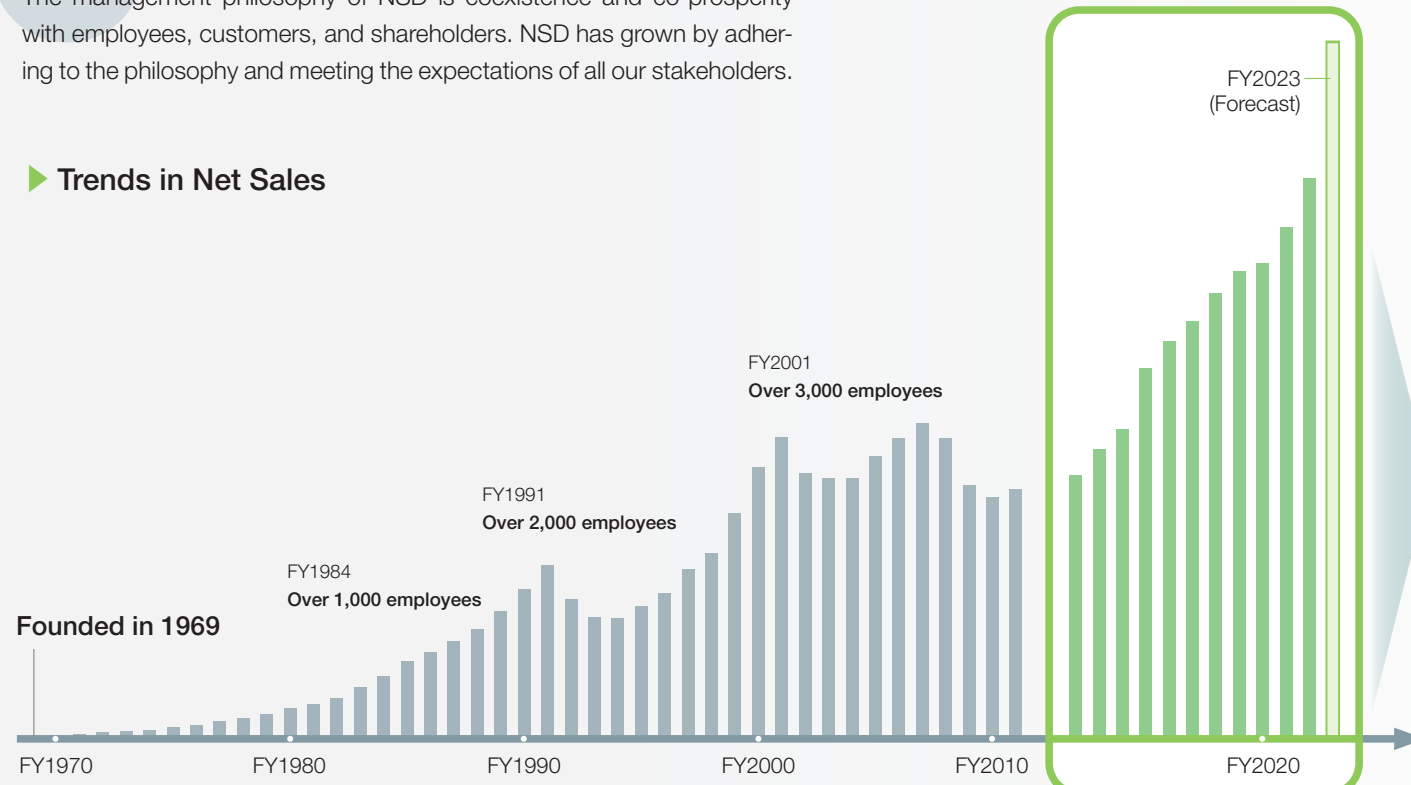
*3: The turnover ratio among non-consolidated employees. Calculated excluding mandatory retirements and persons using the Company's early retirement incentive program.

A journey of half a century alongside our stakeholders Toward a next stage of further growth through future-oriented strategies

History since the Foundation

The management philosophy of NSD is coexistence and co-prosperity with employees, customers, and shareholders. NSD has grown by adhering to the philosophy and meeting the expectations of all our stakeholders.

Trends in Net Sales



* Figures for 1998 and earlier are non-consolidated figures.

Main Topics

- | | |
|---|--|
| 1969 NSD established as Nippon System Development Co., Ltd. (Original company name in Japanese) | 2012 Established NSD International, Inc. (New York State, U.S.) |
| 1988 Listed on the 2nd Section of the Osaka Securities Exchange | 2012 Established Renbenxindong Technology Ltd. |
| 1991 Certified as a systems integrator by the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry) | 2014 Established Chengdu Renbenxindong Technology Ltd. |
| 1998 Listed on the 1st Section of the Osaka Securities Exchange | 2015 Acquired NMSystems Co., Ltd. as a subsidiary* |
| 1999 Listed on the 1st Section of the Tokyo Stock Exchange | 2017 Acquired Japan Job Posting Service, Inc. as a subsidiary* |
| 2001 Acquired FSK Co., Ltd. as a subsidiary | 2019 Established NSD Advanced Technology Research Institute Co., Ltd. |
| 2007 Shareholders Relation Service, Inc. launched operations | 2022 Moved to the Prime Market of the Tokyo Stock Exchange |
| 2010 Changed name to NSD Co., Ltd. | 2022 Acquired Trigger Inc. as a subsidiary |
| | 2023 Acquired ART Holdings Co., Ltd. as a subsidiary |
| | 2023 Acquired NHOSA Corporation as a subsidiary |

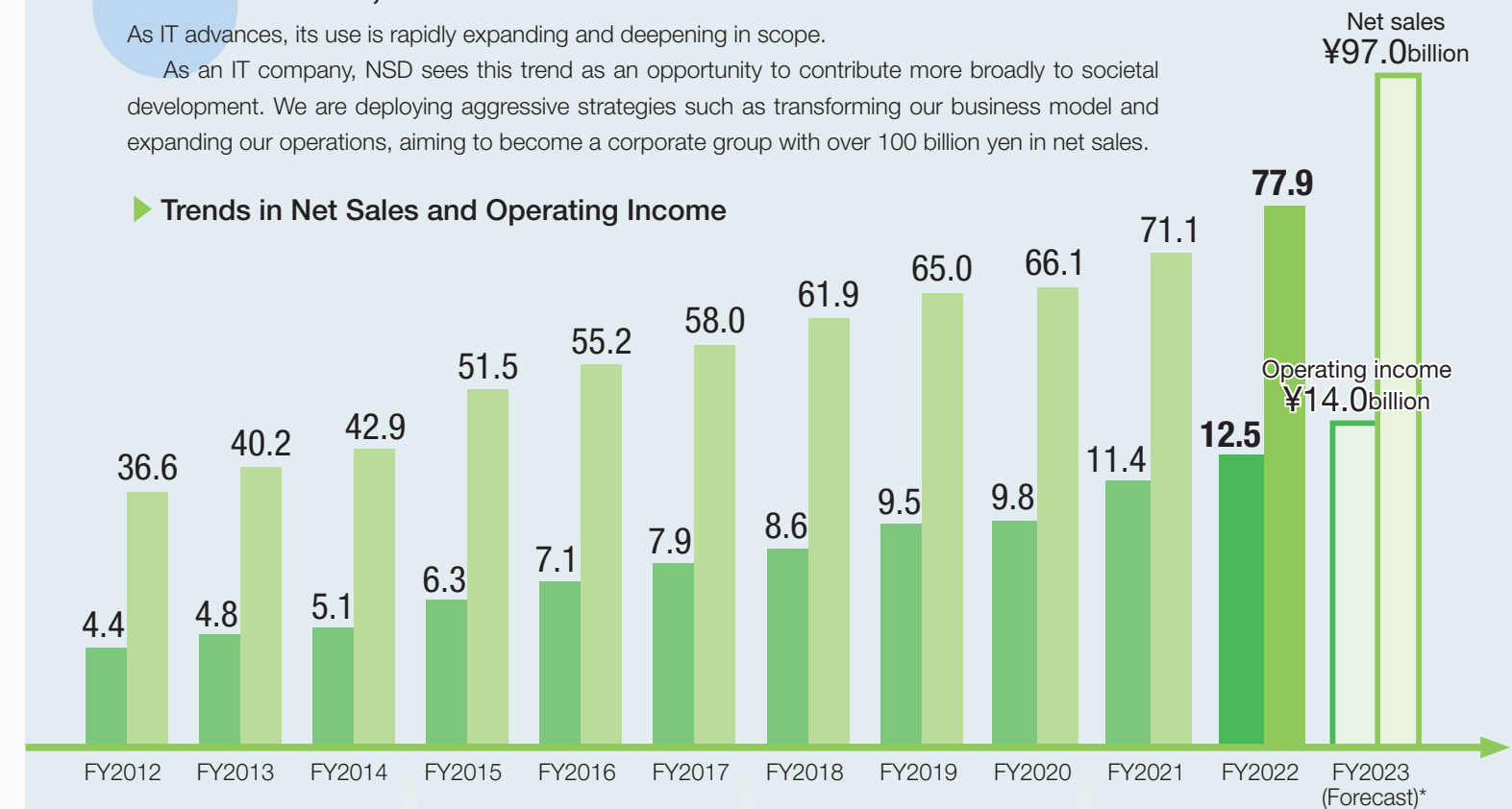
*The two companies merged in 2018 under the name StellaS Co., Ltd.

Current Position, and Toward the Future

As IT advances, its use is rapidly expanding and deepening in scope.

As an IT company, NSD sees this trend as an opportunity to contribute more broadly to societal development. We are deploying aggressive strategies such as transforming our business model and expanding our operations, aiming to become a corporate group with over 100 billion yen in net sales.

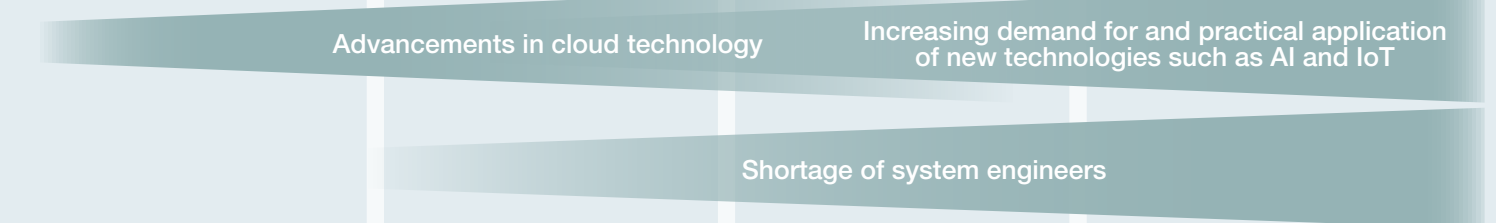
Trends in Net Sales and Operating Income



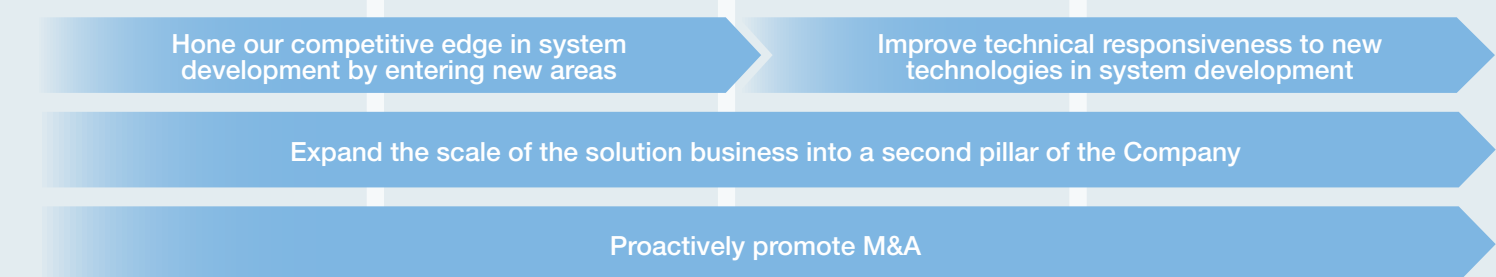
Medium-Term Management Plan



IT Trends



Basic Strategies



* Figures forecast for fiscal 2023 are those announced on May 9, 2023.

Solving social issues with the power of IT by supporting smart living and DX in various industries and fields

System Development Business



Finance

Banks, trust banks, insurance companies, securities companies, and credit card companies are our main customers, and we support a wide range of operations from core systems to industry-specific systems.



Service

We have a wide range of customers, from media organizations to schools and research institutions, and support them with a variety of systems tailored to specific operations, such as election reporting systems for media organizations, for example.



Telecommunication

We cater to major telecommunications carriers as our main customers, ranging from landline to mobile phone services. We are involved in the development of core systems as well as support the development of services utilizing 5G technology.



Transportation

Our main customers are airlines, railway companies, and transportation companies. We provide a wide range of operational support, from customer-facing systems (such as reservation systems) to various back-end systems.



Manufacturing

We develop product supply and demand systems and production management systems for customers across a range of sectors, from electronics and automobiles to food and pharmaceuticals, supporting productivity improvement in a variety of production processes.



Public Organizations

We support operational efficiency for key clients such as central government agencies, local governments, and affiliated organizations. In addition to systematizing processes within government offices, we provide one-stop service systems for administrative procedures for example.



Solution Business



Medical & Healthcare

We provide solutions for dental clinics that handle everything from electronic medical record creation to billing processing. We also offer solutions that support everything from the creation of reports for accident occurring in medical settings to the planning of countermeasures, as well as solutions to support health and productivity management.



Human Resources

We provide various HR solutions, supporting everything from recruitment marketing to selection progress management, as well as solutions that centralize the management of operations required for staffing.



Logistics

We provide solutions to centrally manage a variety of operations required for commercial warehouse management, from basic management tasks such as acceptance and delivery, inventory, and location management to peripheral tasks including customs clearance information management.



Operational Improvement

We offer solutions that utilize RFID, which employs small wireless chips for the identification and management of people and objects. We support operational improvement in all sectors, including medical and nursing care settings, manufacturing management in factories, as well as contactless entry and exit management.



Security

We provide solutions for building secure networks and addressing issues such as information leakage and unauthorized access. As Japan moves away from PPAP, a file-sharing method using password-protected zip files, we are contributing to this initiative by providing solutions to enable the safe transmission and reception of large amounts of data.



Shareholder Relations and Investor Relations Support

We offer full outsourcing services for shareholder benefits, from planning to ordering and handling inquiries about complimentary goods, and provide a platform that connects issuer companies with individual investors.

NSD aims to build a sustainable society and continuously improve corporate value by using IT to solve various social issues that arise as a result of changes in the external environment.

Materiality → P.13

Environment

Reducing impact on global environment

Society

Contributing to society by using our characteristics as an IT company
Creating a workplace where diverse human resources can thrive with job satisfaction

Governance

Strengthening the foundation for the Company's existence

Management Resources → P.15

Human Resource



- Professional human resources
- Trustworthy business partners

Technology & Expertise



- Extensive business knowledge and technical expertise
- Solid management system
- Advanced technology expertise and application capabilities

Customer Base



- Diverse customer base of blue-chip companies
- Co-creation in advanced technology fields

Finance



- High cash flow generation capability
- Sound and solid financial base

Vision

A company that offers a "Future for People and IT"

Business Strategies → P.27

Sustained growth in the system development business

Make the solution business a second pillar of the Company

Expand advanced technology and DX-related businesses

Effective use of M&A

Business Activities → P.41

Financial IT

Industry & Infrastructure IT

IT Infrastructure Construction

Solution Business

System Consulting

Software Development

Advanced Technology DX

IT Infrastructure Development

Maintenance & Operation

Providing Solutions

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Foundation to Support Sustainable Growth

Human Resource Management → P.51

Supply Chain Management → P.54

Governance → P.61

Value Provided to Society → P.17

Creating Economic Value

- Net sales: ¥77.9 billion
- Operating income: ¥12.5 billion
- Net income attributable to owners of the parent: ¥10.2 billion
- ROE: 19.3 %
(Fiscal 2022 results)

Creating Social Value

Employees



- Growth and career development
- A healthy and rewarding work environment

Customers



- Sustained growth
- Innovation

Business Partners



- Value creation through co-creation
- Fair and equitable transactions

Shareholders



- Improvement of shareholder value and return of profits
- Highly transparent information disclosure and dialogue

Communities



- Solutions that support social infrastructure
- Employment opportunities

Worsening climate change problem

Evolution of IT

Lack of IT human resources

External environment

Greater cyber risks

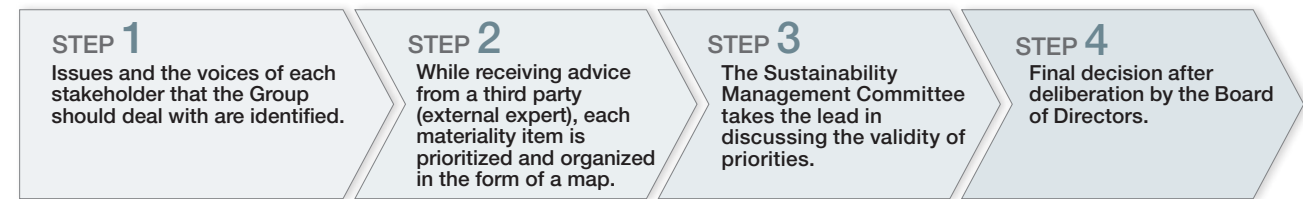
Fall in working-age population

More diversity

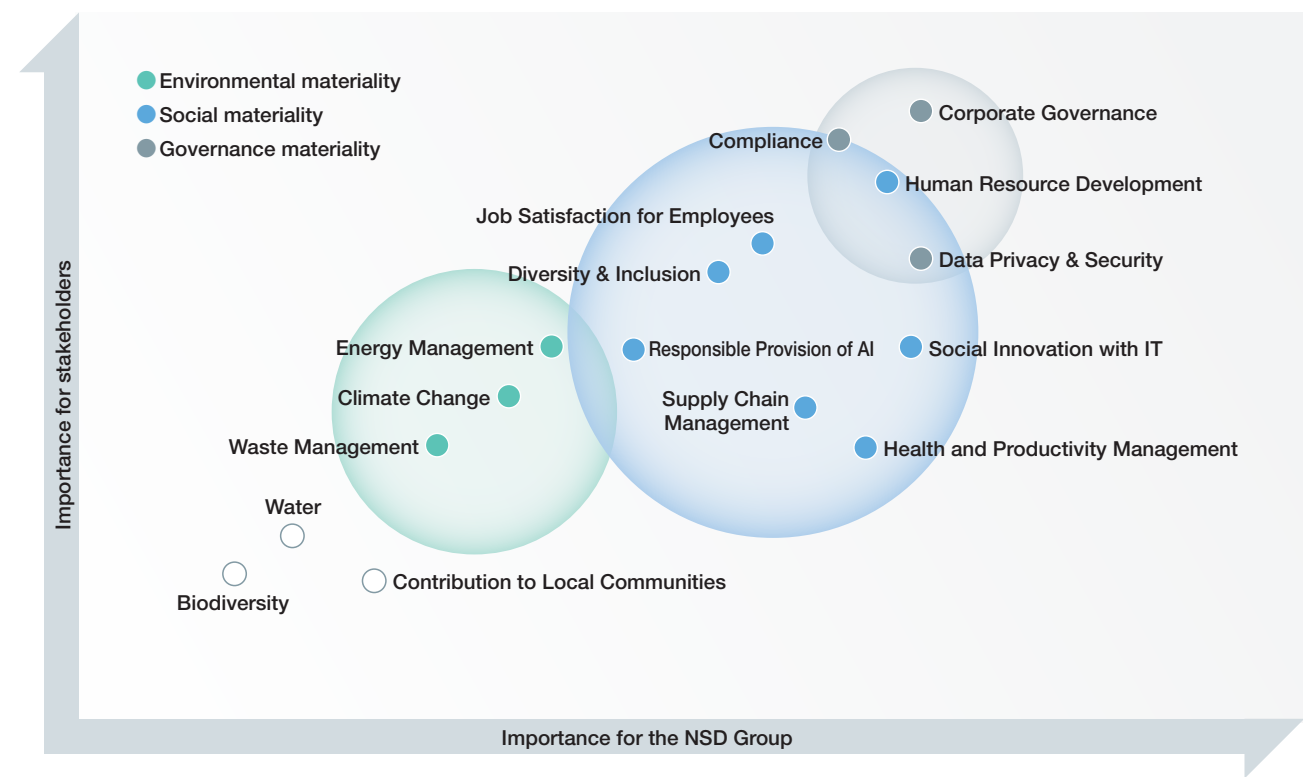
From among a wide range of ESG-related issues, we have identified materiality items based on the strengths of the NSD Group and industry characteristics and promote initiatives to effectively help build a sustainable society.

Materiality Identification Process

In identifying materiality, we carried out the process with the advice of outside experts, based on the two perspectives of “importance for stakeholders” and “importance for the Group.”



Materiality Map



E Reducing Impact on Global Environment

Materiality	Measures	Initiatives and Achievements	Related SDGs
Climate Change Energy Management	<ul style="list-style-type: none"> Thorough environmental management based on ISO14001 Environmentally friendly initiatives Target CO₂ emissions FY2030: 827 t-CO₂ (35% reduction from FY2020 levels) FY2050: 356 t-CO₂ (72% reduction from FY2020 levels) 	<ul style="list-style-type: none"> Established an environmental management system in compliance with the ISO14001:2015 certification standards, and operated and managed it in accordance with the PDCA cycle. FY2022 greenhouse gas emissions were 915 t-CO₂, a 28% reduction from FY2020 levels (base year). 	
Waste Management	<ul style="list-style-type: none"> Reducing waste by going paperless and recycling computers, etc. Target Sheets of printing paper used FY2030: 630,000 sheets (30% reduction from FY2020 levels) 	<ul style="list-style-type: none"> 760,000 sheets of printing paper were used in FY2022, a 15% reduction from FY2020 levels (base year). The rate of reusing and recycling computers was kept at 100%. 	

S Contributing to Society by Using Our Characteristics as an IT Company

Materiality	Measures	Initiatives and Achievements	Related SDGs
Social Innovation with IT	<ul style="list-style-type: none"> Solving social issues by creating and providing solutions that use advanced technologies 	<ul style="list-style-type: none"> Provided a solution for analyzing the movement of workers using autonomous navigation and a solution for preparing meeting minutes using voice recognition and speaker identification technologies. Also utilized advanced technology in system development. 	

S Creating a Workplace Where Diverse Human Resources Can Thrive with Job Satisfaction

Materiality	Measures	Initiatives and Achievements	Related SDGs
Human Resource Development	<ul style="list-style-type: none"> Skills development through extensive training systems and practical guidance <ul style="list-style-type: none"> Improving technical skills as engineers (from the basics to exploring advanced technologies) Improving human skills as members of society 	<ul style="list-style-type: none"> In FY2022, conducted training with an emphasis on agile development and technology trends. Expanded credentials eligible for financial incentives. As of the end of FY2022, there were a total of 4,629 employees with IT credentials. 	
Job Satisfaction for Employees	<ul style="list-style-type: none"> Providing appropriate and sufficient opportunities for employees to develop their skills Having a fair personnel system that rewards contribution 	<ul style="list-style-type: none"> Improved compensation through base pay increases, etc. in FY2022 and FY2023. Considering further enhancement of the personnel system, such as dividing career paths into subcategories toward FY2024. 	
Health and Productivity Management	<ul style="list-style-type: none"> Providing an environment where employees can work safely and in good health Target Maintain less than 20.0 hours of overtime Target 75% or more of paid vacation days taken 	<ul style="list-style-type: none"> FY2022 stress check results showed a downward trend in the ratio of highly stressed individuals, down 0.9% from the previous year to 11.5%. Certified as a Health & Productivity Management Outstanding Organization (Large Enterprise Category) for six consecutive years. 	
Diversity & Inclusion	<ul style="list-style-type: none"> Steady rollout of initiatives for women's advancement in the workplace Creating a comfortable working environment that respects employee diversity Target Female employees in FY2025: 23% or more Target Women in management positions in FY2030: 10% or more Target Male employees taking childcare leave in FY2025: 50% or more 	<ul style="list-style-type: none"> In FY2022, the ratio of female employees was 19.6%, and the ratio of women in management positions was 6.2%. The ratio of women in new graduate hires in FY2023 was 46.7%. Held seminars for male employees on childcare support systems. The ratio of male employees who took childcare leave in FY2022 was 30.9%. Promoted understanding through D&I training, distribution of educational booklets on LGBTQ issues, etc. 	
Supply Chain Management	<ul style="list-style-type: none"> Encouraging equal and fair dealings with business partners Sharing and taking on sustainability challenges together with business partners 	<ul style="list-style-type: none"> Compiled items to be addressed by business partners in our Sustainability Procurement Guidelines and actively encouraged regular sharing of information with their senior management. 	

G Strengthening the Foundation for the Company's Existence

Materiality	Measures	Initiatives and Achievements	Related SDGs
Corporate Governance	<ul style="list-style-type: none"> A Board of Directors that supports highly effective supervision and transparent management decisions Officer remuneration system to support business execution that leads to efficient and sustained growth 	<ul style="list-style-type: none"> Three of the seven directors and two of the three Audit & Supervisory Board members are independent outside officers. Director remuneration consists of base remuneration, bonuses, and stock-based remuneration (over 40% is performance-linked remuneration). 	
Compliance	<ul style="list-style-type: none"> Fostering and enforcing an awareness around compliance Ensuring fair trade and preventing corruption Preventing compliance violations, etc. 	<ul style="list-style-type: none"> Regularly conducted training on important laws and regulations such as Japan's Subcontractor Act and Anti-Monopoly Act, as well as on harassment prevention (maintained a 100% participation rate). Compliance status is reviewed by the Risk Management Committee. Issues and other matters are reported to the Board of Directors. 	
Data Privacy & Security	<ul style="list-style-type: none"> Improving employee literacy on information security Strengthening security through measures against cyberattacks, vulnerability diagnostics, etc. 	<ul style="list-style-type: none"> Regularly conducted training on information security and the protection of personal information (maintained a 100% participation rate). The Information Security Committee met 12 times in FY2022. Issues and other matters are reported to the Board of Directors. Reinforced measures to prevent unauthorized access and malware infection, etc. 	

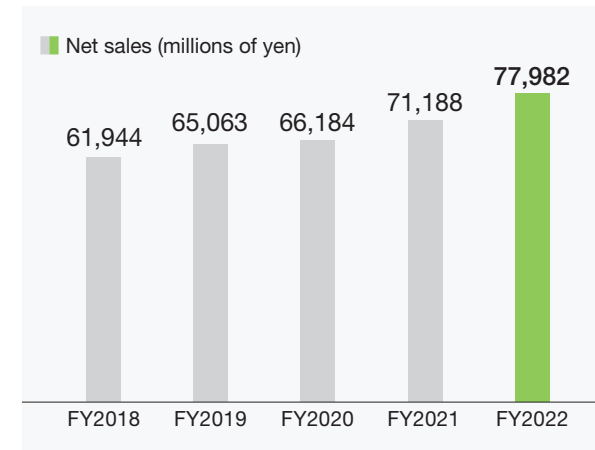
Human Resource 	<ul style="list-style-type: none"> Professional human resources Trustworthy business partners 	<ul style="list-style-type: none"> A group of professionals with over 4,000 system engineers (ratio of system engineers: 95.2%) An organizational culture of approaching all tasks with earnestness and a sincere attitude that our customers appreciate A total of more than 4,000 employees with IT credentials, which ensures high-quality, reliable project management Ensuring high mobilization capabilities with business partners that meet selection criteria, primarily core partners
Technology & Expertise 	<ul style="list-style-type: none"> Extensive business knowledge and technical expertise Solid management system Advanced technology expertise and application capabilities 	<ul style="list-style-type: none"> Promoting the development of professional human resources through extensive technical training For over half a century, NSD has accumulated a wealth of business knowledge and technical expertise through the development of systems for customers in a wide range of industries Thorough project management and strict management standards prevent unprofitable projects at the senior management level Advanced technology expertise and application capabilities accumulated through practice and research led by NSD Advanced Technology Research Institute
Customer Base 	<ul style="list-style-type: none"> Diverse customer base of blue-chip companies Co-creation in advanced technology fields 	<ul style="list-style-type: none"> Solid and well-diversified customer base consisting of major blue-chip companies, that is not affected by changes in the business environment of specific industries Solid relationships of trust with customers from whom we receive orders on an ongoing basis Of the top 50 companies, more than 80% have been our customers for 10 or more years Customers from various industries co-create solutions using advanced technology as investing companies and member companies of NSD Advanced Technology Research Institute
Finance 	<ul style="list-style-type: none"> High cash flow generation capability Sound and solid financial base 	<ul style="list-style-type: none"> Management focused on capital efficiency and cash flow generation capability Aggressive investment in growth and enhanced shareholder returns through high cash flow generation capability Securing a sound and solid financial base through safe and secure investment of surplus funds and a conservative basic policy for strategic shareholdings

Number of employees As of September 30, 2023 4,448	Number of employees with IT credentials^{*2} Total at the end of FY2022 4,629	Number of business partners^{*2} Results for March 2023 305
Number of participants in technical training^{*2} Total for FY2022 1,027	Ratio of unprofitable amount to net sales^{*2} 3-year average 0.08%	New technologies and DX-related sales in the system development business 29.3%
Number of companies engaged in transactions^{*2} FY2022 results 1,348	Ratio of sales from top 10 companies^{*2} 28.4%	Number of investing companies and member companies of NSD Advanced Technology Research Institute 11
ROE 19.3%	EBITDA margin 17.1% Free cash flow ¥16.0billion	Equity ratio 80.3% Net assets ¥55.4billion

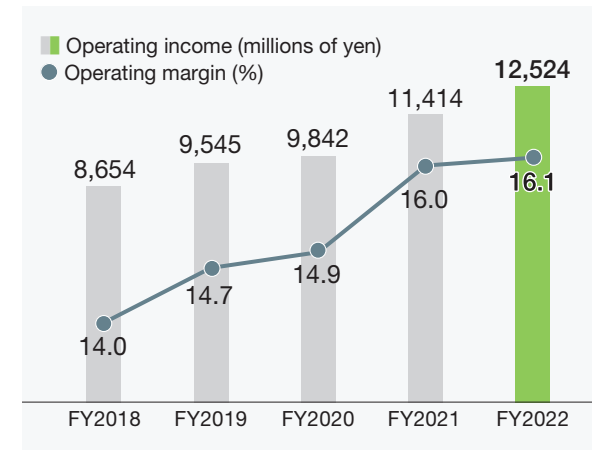
*1: In principle, the above figures are based on fiscal 2022 results.
*2: The figures are provided on a non-consolidated basis.

Financial Indicators

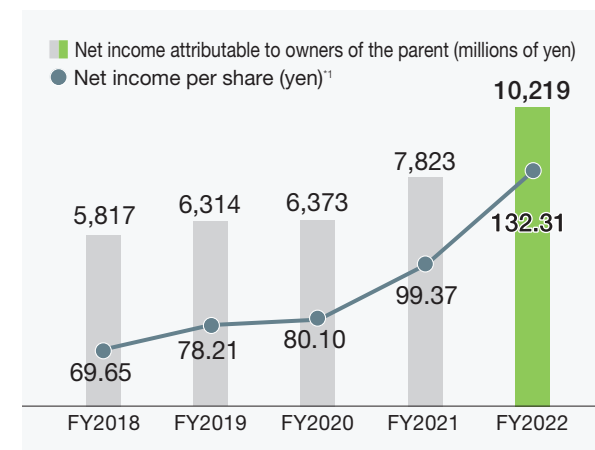
Net Sales



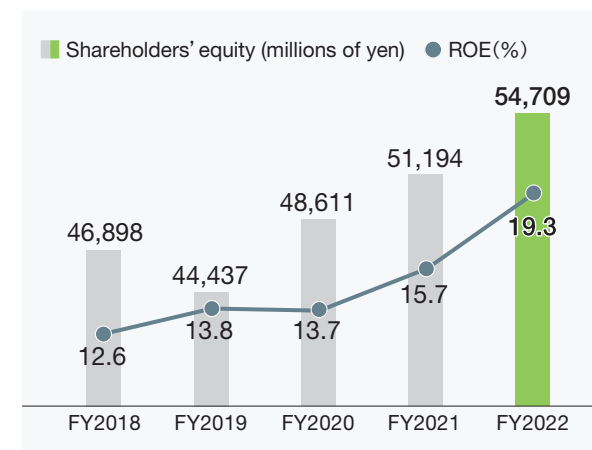
Operating Income / Operating Margin



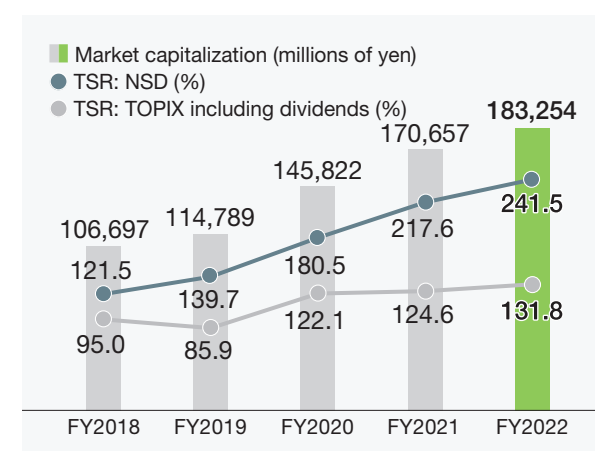
Net Income Attributable to Owners of the Parent / Net Income per Share



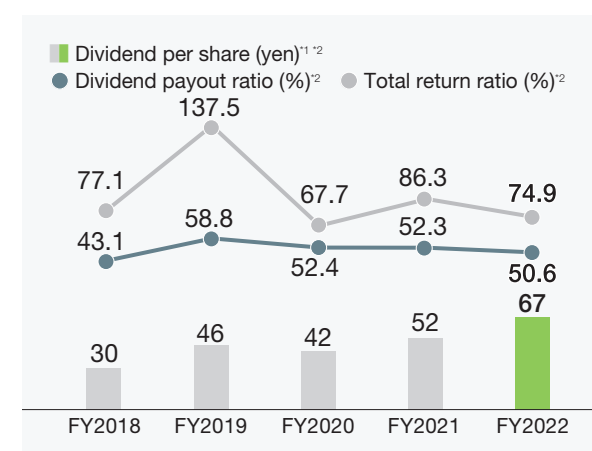
Shareholders' Equity / Return on Equity (ROE)



Market Capitalization / Total Shareholder Return (TSR)



Shareholder Returns

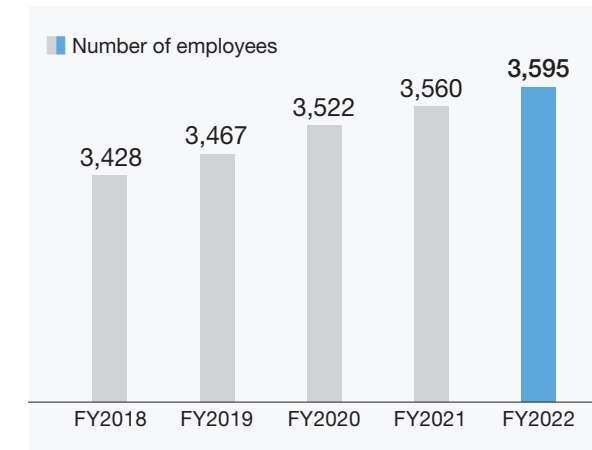


*1: Per share indicators are based on the number of shares after the Company's stock split executed on January 1, 2020.

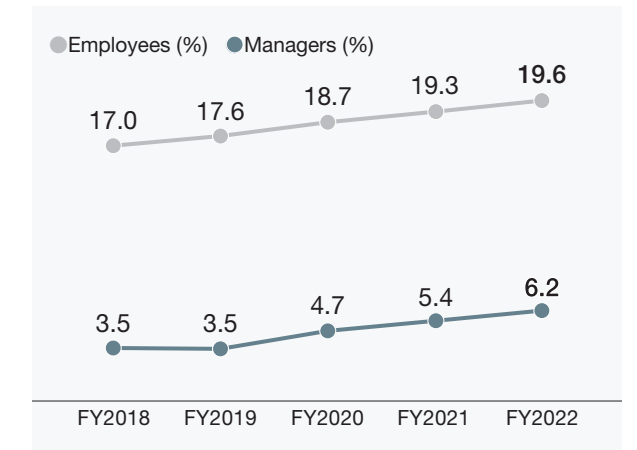
*2: Fiscal 2019 indicators are calculated to include the Company's 50th anniversary commemorative dividend (14 yen per share).

Non-Financial Indicators

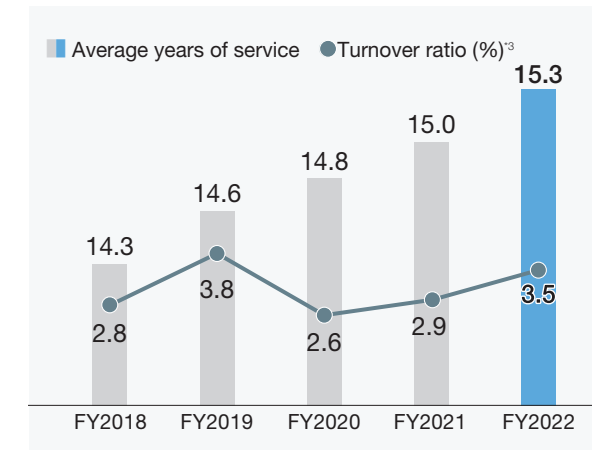
Employees



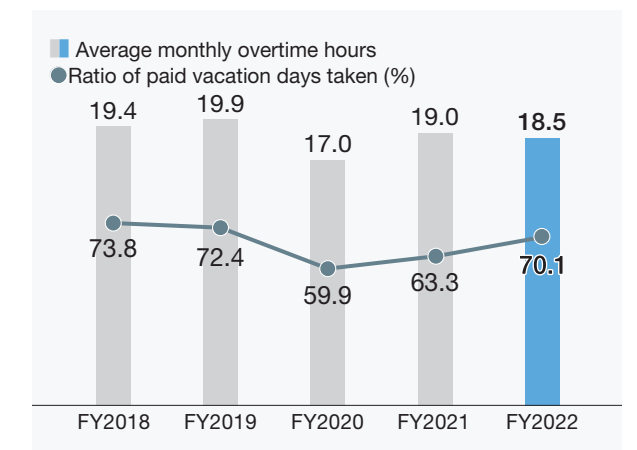
Female Ratios



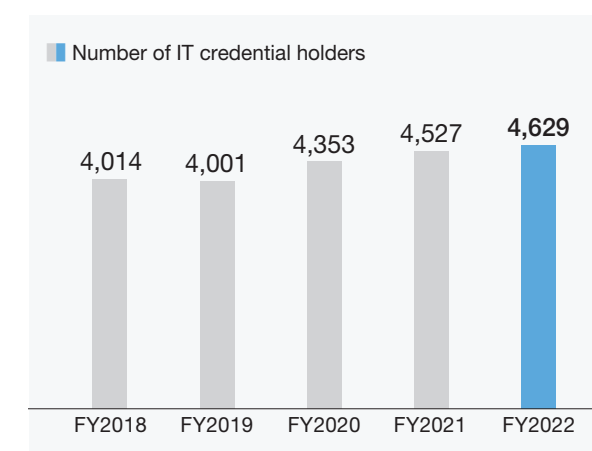
Average Years of Service / Turnover Ratio



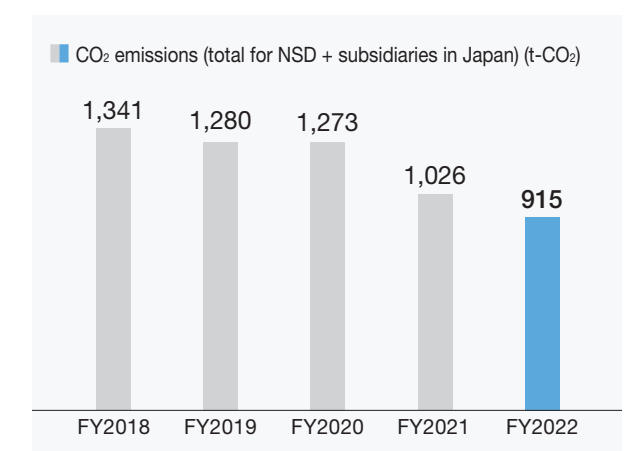
Average Monthly Overtime Hours / Ratio of Paid Vacation Days Taken



Number of Employees with IT Credentials



CO₂ Emissions



*3: Calculated excluding mandatory retirements and persons using the Company's early retirement incentive program.

We will fulfill our mission as an IT company through *practice and research*, the starting point for everything NSD does

The NSD Group's DNA

In every era, *practice and research* form the foundation

"To be an extremely unique entity that combines practice and research, including the establishment of true computer science"

These are the thoughts our founder put into words as our founding prospectus when NSD was established in 1969. Now, half a century later, NSD has grown into a corporate group with more than 4,000 employees, but in every era, the spirit of *practice and research* forms the foundation of the Group. This is because we believe that repeated practice and research will lead us closer to the essence of problems and enable us to provide the value that is truly needed.

I believe that the NSD Group has been able to remain on a growth path until now because we have continuously repeated practice and research to solve problems always from the customer's perspective, and have found and of-

fered answers that only we could have come up with.

Sensitive to changes in the technology that meets the needs of the times, our business model continues to evolve, as nowadays, for example, we are focused on development that leverages advanced technology and the creation and provision of solutions. Even so, our approach of emphasizing practice and research from the customer's perspective remains an immutable constant. Rather than blindly chasing new technologies, our approach is to tackle challenges one by one, helping customers hone their competitive edge. We are always thinking about what we need to do to achieve this, and steadily and repeatedly pursue practice and research, firmly planting our feet on the ground and then taking one step at a time. This is the spirit that has supported and driven the growth of the NSD Group.

Being *earnest*

Since its founding, another of the strengths that the NSD Group has emphasized is a willingness to act responsibly and sincerely in response to requests from customers. Even when a problem occurs, we resist the temptation to run away. Instead, we search for the root cause and face the problem head on. This attitude has often earned us praise, with customers concluding that "NSD is *earnest*."

The most important thing for building a relationship of trust is to steadily put the obvious, i.e., acting responsibly,

into practice, and this approach has resulted in longstanding business relationships with customers whom we can now call "lifelong customers."

This earnestness possessed by each and every one of our employees is an indispensable element for increasing the value of our customers' respective enterprises, and ultimately, for enabling the NSD Group to grow. It is the NSD Group's DNA, and we intend to keep passing it on.

Yoshikazu Imajo
President & CEO



Mission as an IT Company

Moving forward with adapting to the changes in the business environment

In recent years, the IT industry has enjoyed a favorable operating environment with a significant increase in efforts to achieve digital transformation (DX) against the backdrop of the spread of new technologies such as AI/IoT and a shift to cloud computing, regardless of domestic and overseas economic trends. Although IT has become essential as a key infrastructure supporting society, Japan still lags behind other countries in terms of IT adoption and the use of advanced technologies, and we expect IT needs to further increase for many of our customers.

Given these circumstances, NSD is keenly aware of its mission as an IT company to help customers surmount their challenges through the power of IT. We have already

altered the fields we focus on to adapt to changes in our operating environment, such as the advancement of cloud technology and the spread and expansion of advanced technologies, in order to precisely meet the needs of our customers. Currently, as stated in our five-year medium-term management plan, which we began executing in fiscal 2021, we are focusing on helping our customers improve their competitiveness through systems development that leverages new technologies and DX, as well as on creating and delivering the solutions that society needs. Through such initiatives, we are intent on fulfilling our mission as an IT company.

Progress with Execution of the Medium-Term Management Plan

Reaching our performance targets in the final year of the plan

In fiscal 2022, the second year of the medium-term management plan, the order environment remained strong as the pandemic subsided and IT investments that had been postponed were resumed, and there was also a continuous emergence of new needs in the new technologies and DX fields.

Given this favorable environment, net sales in fiscal 2022 increased by 9.5% year on year to 77.9 billion yen on the back of steadily improving performance of both the system development business and the solution business. Of this, net sales in new core business* climbed by 20.7% to 28.4 billion yen, with the new technologies and DX-related system development business as the driver. Operating income rose 9.7% to 12.5 billion yen, as higher revenues absorbed base salary increases, M&A-related expenses, and amortization of goodwill. As a result, it was our 11th consecutive year of growth in both revenues and profits, and I view this as further evidence that we have made our business foundation even more robust.

* New core business refers to the new technologies and DX-related system development business and the solution business.

One of the measures in our medium-term management plan is to invest a total of 20 billion yen in M&A for the sustainable growth of the system development business and the expansion of the solution business. So far, we have

been able to complete three M&A transactions.

In October 2022, we welcomed Trigger Inc., which has strength in IT consulting, to the NSD Group, thereby reinforcing our consulting capabilities in areas such as upstream system development processes. Then, in April 2023, ART Holdings Co., Ltd., which possesses a stable foundation in such businesses as system development, mainly in the Hokuriku region, also joined the NSD Group. This allowed us to secure the ART Group’s excellent customer base along with more than 400 high-caliber systems engineers, which has helped fortify the foundation for achieving further growth of the system development business. And later, in May 2023, the NSD Group also welcomed NHOSA Corporation, the market leader in the dental systems field, which includes receipt computers for dental clinics for managing medical records. We believe that the addition of this company to the Group will help us to expand our solutions business in the medical and healthcare domains.

Coupled with solid organic growth, we expect the impacts of these three M&A deals to lead to significant improvements in our financial performance in fiscal 2023 and into the future, and we are now within reach of becoming a corporate group with consolidated net sales of over 100 billion yen, one of the performance targets we set in our medium-term management plan.



Toward Further Advancement

Strengthening NSD’s capabilities

For the NSD Group to achieve sustainable growth, I regard it as essential to secure human resources and bolster our ability to handle new technologies in the system development business and to enhance our lineup of offerings in the solution business.

In the system development business, we are continuing to focus on recruiting fresh graduates, as it is this that has created the corporate culture of the NSD Group, but by expanding mid-career recruitment, including hiring by regional offices, we are also working to secure exceptional professionals who can contribute immediately. Furthermore, we are concentrating on providing internal technical training programs to new hires to get them up to speed on new technologies. We are also stepping up our recruitment of personnel with knowledge of new technologies, such as people who have been involved in cutting-edge technology research at graduate schools, etc. And to ensure we can retain the top-flight talent we have secured, we are not only moving to improve salaries and benefits, but are also work-

ing to further enhance personnel measures to reflect health and productivity management initiatives and respect work-life balance.

In the solution business, we intend to further enhance the development and provision of solutions that involve the use of services, and grow the business to make it a second pillar of our operations. This move reflects the ongoing pivot from owning to using systems, which is taking place against a backdrop of developments such as the shift to cloud computing. As part of this effort, NSD Advanced Technology Research Institute is pursuing the unique approach of forming partnerships with customers and jointly developing new solutions that meet their needs. By further accelerating and strengthening this co-creation process, we will be looking to expand our solutions lineup. On the other hand, when developing solutions in house, it takes time to scale up the business. We will therefore continue to explore potential M&A deals with companies that already offer competitive solutions in specific fields.

To Our Stakeholders

Aiming for further evolution while respecting NSD’s origins

As I mentioned above, the impacts of our recent M&A deals, coupled with the effect of steady organic growth, are expected to make a strong contribution to our financial performance from fiscal 2023 and to set us on the path to achieving tremendous growth into the future. So in May 2023, we revised up our medium-term management plan performance targets to take these impacts into account, and are now aiming for net sales of 110 billion yen and an operating income of 16.5 billion yen, having increased both targets by 10%. We expect to achieve our initial target of 100 billion yen in consolidated net sales ahead of schedule, but 100 billion yen is no more than a milestone on the road to sustainable growth of the NSD Group. We remain

committed to continuing to evolve for further growth.

In the IT industry these days, the operating environment is changing at a rapidly accelerating pace in advanced technology fields, and the NSD Group must respond flexibly to meet these changes. In an environment like this, it is all the more important for us to deploy our business approach from customer perspective and our earnestness as weapons, and we therefore intend to further evolve and to fulfill our mission as an IT company through practice and research, the starting point for everything NSD does.

I wish to thank all of you in advance for your continued support.

Two years of progress that has exceeded expectations

Upward revision of performance targets as a result of factors including successful M&A

NSD aims to become a corporate group with net sales above 100 billion yen within the five-year period of the medium-term management plan that commenced in fiscal 2021.

Over the past two and a half years, we have focused on expanding the business foundation of the whole NSD Group through organic growth as well as by leveraging M&A. As a result of these efforts, we have laid the ground-

work for becoming a corporate group with a revenue exceeding 100 billion yen.

Continuing ahead, we will focus our efforts on the development of new technologies and digital transformation (DX)-related systems, as well as solutions, in order to adapt to a digitalizing society. We thus strive to transform into a corporate entity with higher added value.

Progress

To sustainably grow NSD's system development business, a core business of the Company, we have focused on strengthening our project acquisition capabilities and securing talent to drive growth. In fiscal 2022, we exceeded our initial objectives thanks to robust customer orders within our new technology and DX-related system development business. This resulted in our 11th consecutive period of revenue and profit growth. Seeing this as a growth opportunity for NSD as a company, we have concentrated on strengthening recruitment, expanding our regional bases, as well as deepening relationships with business partners to enhance our mobilization capabilities.

In the solution business, we have not only strengthened the

sales of existing solutions but have also expanded the scale of business through the use of M&A. Additionally, we have newly established Advanced Solution Planning Department and DX Consulting Department to enhance our proposal and development capabilities in advanced technology, as well as strengthen our ability to capture the needs of the market in response to DX.

On account of these initiatives and the impact of M&A, we have upwardly revised targets for the final year of our medium-term management plan as per below. Additionally, due to the increase in the amortization of goodwill from this round of M&A, we have added EBITDA and EBITDA margin to our KPIs as new indicators. This allows for a more consistent comparison of profitability with past performance.

Long-Term Vision

Evolving the business based on a solid foundation
Value propositions that resonate with customers
Autonomous talent who demonstrates creativity

Vision for 2025

Create a "uniquely
NSD" touch in the
system
development
business

Develop
businesses with
core strengths in
multiple domains

Become a group
of IT engineers
who create
transformation
together with our
customers

Basic Strategies

Achieve sustainable growth
in the system development business

Make the solution business
a second pillar of the Company

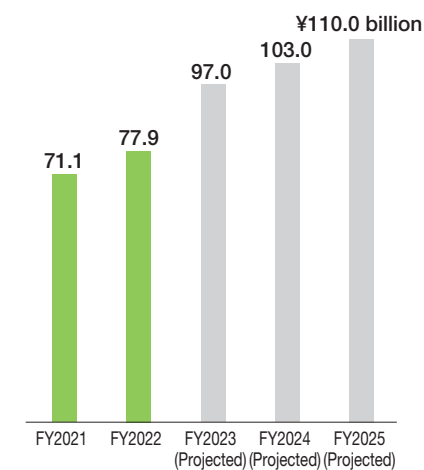
Expand advanced technology and DX-related businesses

Effective use of M&A

Advancement of ESG initiatives

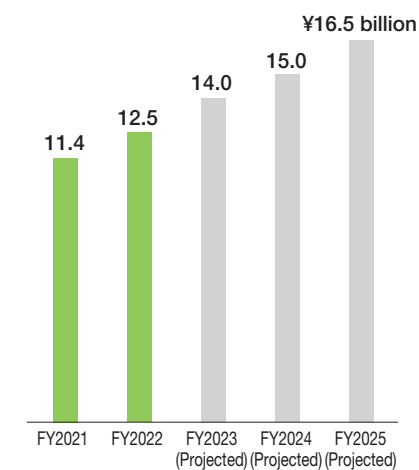
Net sales

Results
Projected



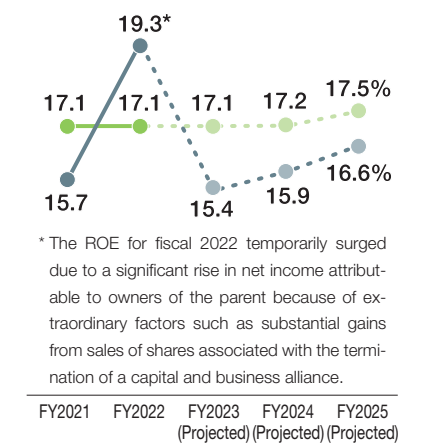
Operating income

Results
Projected



EBITDA margin / ROE

EBITDA margin
ROE



* The ROE for fiscal 2022 temporarily surged due to a significant rise in net income attributable to owners of the parent because of extraordinary factors such as substantial gains from sales of shares associated with the termination of a capital and business alliance.

	First year	Second year	Third year	Fourth year	Final year	Final year
	FY2021 Results	FY2022 Results	FY2023 Projected	FY2024 Projected	FY2025 Projected	FY2025 (Initial Projections)
Net sales	71.1	77.9	97.0	103.0	110.0	100.0
Of which new core business accounted for	23.5	28.4	37.5	43.0	50.0	40.0
Operating income	11.4	12.5	14.0	15.0	16.5	14.5
Operating margin	16.0%	16.1%	14.4%	14.6%	15.0%	14.5%
Net income attributable to owners of the parent	7.8	10.2	8.7	9.5	10.5	10.0
EBITDA	12.1	13.3	16.6	17.7	19.2	-
EBITDA margin	17.1%	17.1%	17.1%	17.2%	17.5%	-
ROE	15.7%	19.3%	15.4%	15.9%	16.6%	15.0%

* Projected figures are those announced on May 9, 2023.

Expand Business Through the Use of M&A

NSD is promoting investment in M&A with a view to expanding our business foundation under our medium-term management plan. In terms of achievements to date, we have welcomed Trigger Inc. into the NSD Group in October 2022, followed by ART Holdings Co., Ltd. and its subsidiaries (Art Group) in April 2023, and finally NHOSA Corporation in May 2023.

These M&As not only contributed to sustainable growth

in the system development business and expanded scale in the solutions business, which are the basic strategies of the medium-term management plan, but also served as an effective measure to address the increasing severity of the shortage of system engineers (SE). We will continue to consider the use of M&A in the upcoming term of our medium-term management plan.

Points of emphasis in M&A

Trigger

System Development

Strengthening our consulting capability
Contributing to the realization of value propositions that resonate with our customers

Trigger

ART Group

System Development

Expertise in business domains that are highly synergistic with NSD
Securing high-quality system engineers to enhance our project responsiveness

ART Technology Co., Ltd. ART Software Co., Ltd.
ART Solution Co., Ltd. human design Co., Ltd. Create Atelier Co., Ltd.

Solutions

Providing RFID solutions
Contributing to the expansion of our solutions lineup

ART Finex Co., Ltd.

ART GROUP

NHOSA

Solutions

Providing industry-leading solutions for dental clinics and dialysis facilities
Contributing to the expansion of our solutions lineup

NHOSA

Achieving sustainable growth in the system development business

Trigger Inc. is a company that specializes in consulting focused on execution support in the IT field, as well as system development and operations support. NSD acquired Trigger Inc. with the aim of bolstering our overall proposal capabilities by strengthening our offering in the IT consulting domain, which covers the initial stage of system development (the upstream process). As a result, we expect an increase in both revenue and profit within our system development business. We have already begun initiatives aimed at the benefits of the NSD Group, including the secondment of engineering staff from Trigger Inc. to NSD.

The ART Group has a well-balanced industry portfolio, consisting of large, reputable companies in sectors such as insurance, credit cards, electrical and electronic equipment, and automobiles. The Group has approximately 460 employees and generates revenue of about 8 billion yen, of which around 80% comes from the system development business. NSD and the ART Group have extremely high compatibility in business domains, foundations, and strategic objectives. Therefore, to achieve our basic strategy of sustainable growth in the system development business, we are combining our respective strengths including technical expertise, development capabilities, and customer bases. We are actively working to create and manifest synergies in both existing businesses and in new fields.

Securing SEs

The ART Group is based in Fukui Prefecture and primarily operates within Tokyo and the Hokuriku region, as well as developing its business in Nagoya and Osaka. The Group, as a reputable local company, has stable recruitment channels primarily in the Hokuriku region, and hires high-quality talent. NSD opened regional bases in Sendai and Hiroshima with the aim of securing SEs through local hire. Welcoming the ART Group aligns with this strategy of regional expansion.

Expanding the scale of the solution business

NHOSA Corporation is a company that has provided IT solutions to hospitals and clinics since its inception in 1979. Its revenue exceeds 5 billion yen. In addition to holding the highest market share in Japan in its field of specialty—the receipt computer system for dental clinics—the company also provides operating support systems to dialysis facilities in hospitals and clinics.

In NSD's medium-term management plan, we aim to make the solution business our second pillar of revenue through a specific strategy that involves expanding and accelerating the scale of the business using M&A. The acquisition of NHOSA Corporation significantly contributes to the strengthening of our solutions.

By merging NSD's technology with NHOSA Corporation's expertise, we aim to pursue synergies. With NHOSA at the core, we will work toward further expansion in the medical and healthcare fields within our solution business.

Solution Business



Co-creating the future with our customers through advanced technology



As the speed of technological innovation accelerates, NSD is leveraging its unique strengths to create further added value by sustaining growth in system development, our core business since our founding. In addition, we are growing our solution business as a second pillar to stabilize our business foundation by expanding our recurring revenue model.

At present, we are also focusing on expanding our new technology and DX-related businesses that incorporate IT including advanced technologies, into practical applications, to emphasize the co-creation of new value with our customers. In doing so, we are responding to our customers' evolving needs. We are also utilizing M&A to further expand the range of solutions we can offer customers.

Achieve Sustainable Growth in the System Development Business

Since our founding, for over half a century, our system development business has not only supported NSD's growth as our core business, but has also contributed to enhancing the corporate value of our customers across a variety of industries. In addition to aiming for further growth in system development as our core business, we offer our customers system development aligned with modern needs by leveraging advanced technologies, unconstrained by traditional frameworks.

● Strengthening project acquisition capabilities

As times and technologies change, the challenges that our customers face and the objectives they aim for are becoming increasingly diverse. What such a situation calls for is to understand the business more than the customer does, to grasp the customer's thoughts, and to support them in making the right decisions about which path to take to achieve their objectives. At NSD, the leaders of our development divisions (who are well-versed in both the customers' businesses and systems) also handle sales. This enables us to understand our customers' needs deeply and efficiently, and to put in place a structure whereby we can make the best possible proposals. We are focused on strengthening our organizational structure to be able to respond to the increasingly diverse needs of the future.

● Using advanced technology

Taking into account the growing demand for advanced technologies such as AI and IoT, as well as DX using robotic process automation (RPA) and the cloud, NSD is leveraging its strengths in practical business applications to provide systems that meet these needs. At present, there is a high demand for new technology and DX-related solutions, which are driving the growth of our system development business. To support this growth, we are also working to strengthen our human resources by hiring advantageous talent, including graduate students who have been researching AI.

● Securing the talent needed to drive growth

To expand the scale of our system development business, the power of people—specifically, the capability of system engineers—is indispensable. In addition to our Tokyo Head Office and branch offices in Osaka, Nagoya, and Fukuoka, we have established offices in Sendai and Hiroshima. We are focusing on securing talent through recruitment activities in a wider geographic area than ever before. By welcoming the Hokuriku region-based ART Group into the NSD Group, we have also secured high-quality talent in the field of system development. We will continue to respond to our customers' needs with precision by harnessing the collective strengths of the NSD Group, including our business partners.

Achieve sustainable growth in the system development business

- Strengthening responsiveness in upstream processes to win more projects from customers
- Winning new business in domains such as digitalization for government administration
- Securing the talent needed to drive growth

Make the solution business a second pillar of the Company

- Accelerating development within the healthcare field in Japan and overseas
- Further strengthening sales capability of HR-related products
- Developing new services in the field of shareholder services

Expand advanced technology and DX-related businesses

- Accelerating business expansion in AI product development
- Deepening collaboration and bringing about co-creation with our customers
- Horizontally deploying knowledge and expertise from specialist departments to other business divisions within the Company
- Expanding measures such as training programs, aimed at developing DX talent and improving technical skill levels

Effective use of M&A

Make the Solution Business a Second Pillar of the Company

We are strengthening and expanding our solution business with a view to using the advancements in cloud technology and the spread of subscription models as a growth opportunity for NSD. We are also accelerating the rapid introduction of new solutions to the market by integrating the operation of NSD Advanced Technology Research Institute, which is responsible for product planning, with our development divisions.

● Expanding our leading solutions in niche markets

We are currently focused on expanding our business domains, including medical and healthcare, human resources, logistics, security, SR and IR, as well as process improvement using RFID. While many of our solutions are niche, we aim to be at the top of each of these fields, thereby ensuring steady growth in our solution business.

● Grounded research into advanced technology

We are pursuing grounded technological research that is useful in real-world business scenarios, while determining the utility of advanced technologies, in collaboration with a range of customers who are leading enterprises within their respective industries. With “co-creation” as our keyword, we are creating new solutions by thinking from our customers' perspective and always working alongside

them. We are delving into research themes with a view to commercialization a few years down the line, advancing the planning and development of solutions that will serve as sources of competitive strength. Through these efforts, we will contribute to enhancing the future value of our customers.

● Business expansion through the use of M&A

We are also advancing non-organic business expansion through the use of M&A. We have welcomed NHOSA, which has strengths in solutions for dental and dialysis clinics, as a member of the NSD Group, thereby expanding NSD's business foundation in the medical and healthcare fields. Having welcomed the ART Group into the NSD Group, it is also now possible for us to provide RFID-related solutions, allowing us to contribute to operational improvement for our customers. We will continue to consider M&A opportunities where there are attractive solutions with the potential to lead in niche markets.

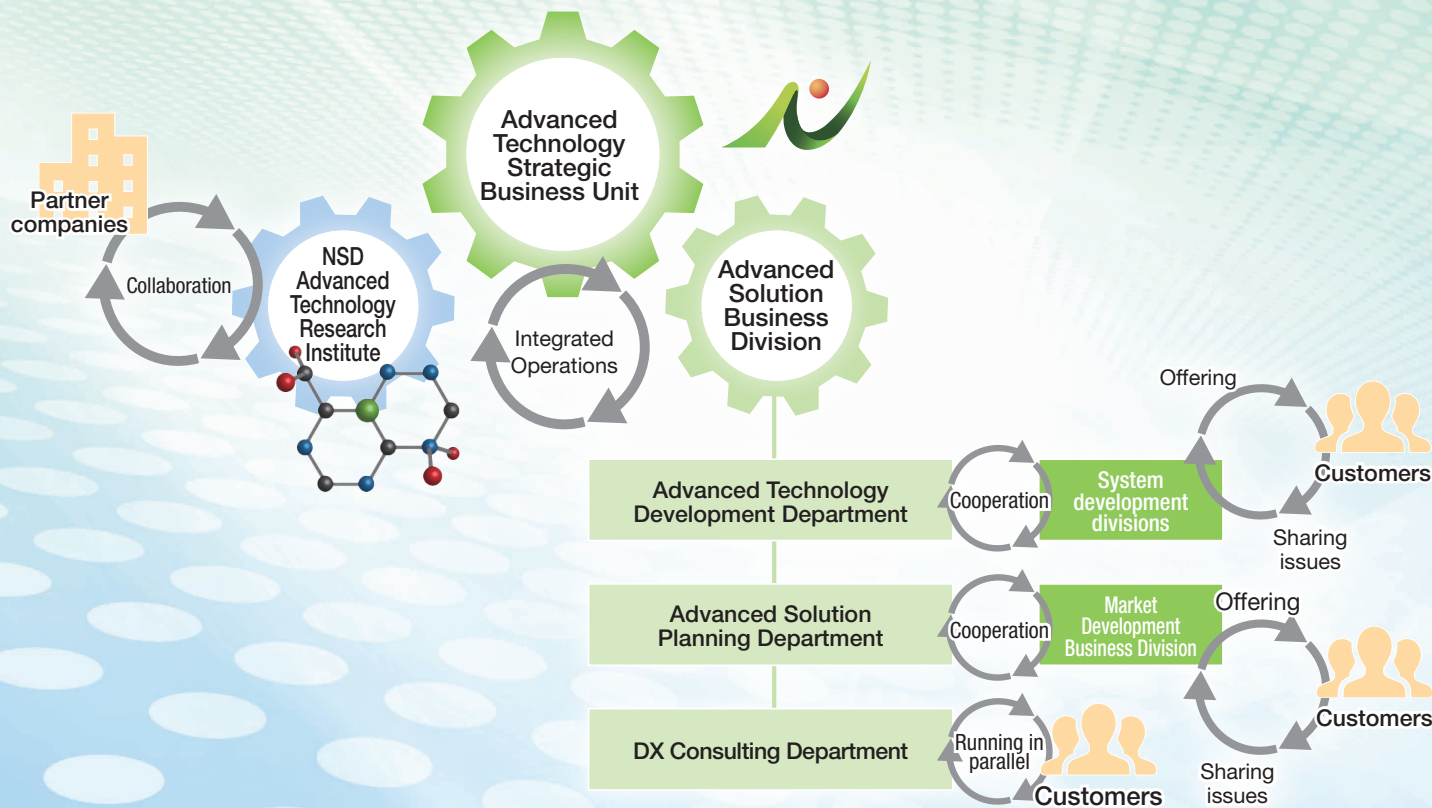
NSD Group's Advanced Technology Initiatives

The utilization of advanced technologies will be the key to future growth and expansion in both our system development and solution businesses.

A significant characteristic of NSD Group's research and development into advanced technologies is our focus on the application and practical use of these technologies. NSD Advanced Technology Research Institute, which is responsible for research and product planning, collaborates with our Advanced Solution Business Division that promotes commercialization focused on development. Together, they identify advanced technology themes for potential commercialization in a few years' time. Through the process of investigation and research through to development, we help to solve the challenges facing our customers and society.

Organizational Chart of Advanced Technology Initiatives

We have established a system that can support the application of advanced technologies to our customers' businesses across all aspects, from research and planning to development and consulting.



Research into Advanced Technology

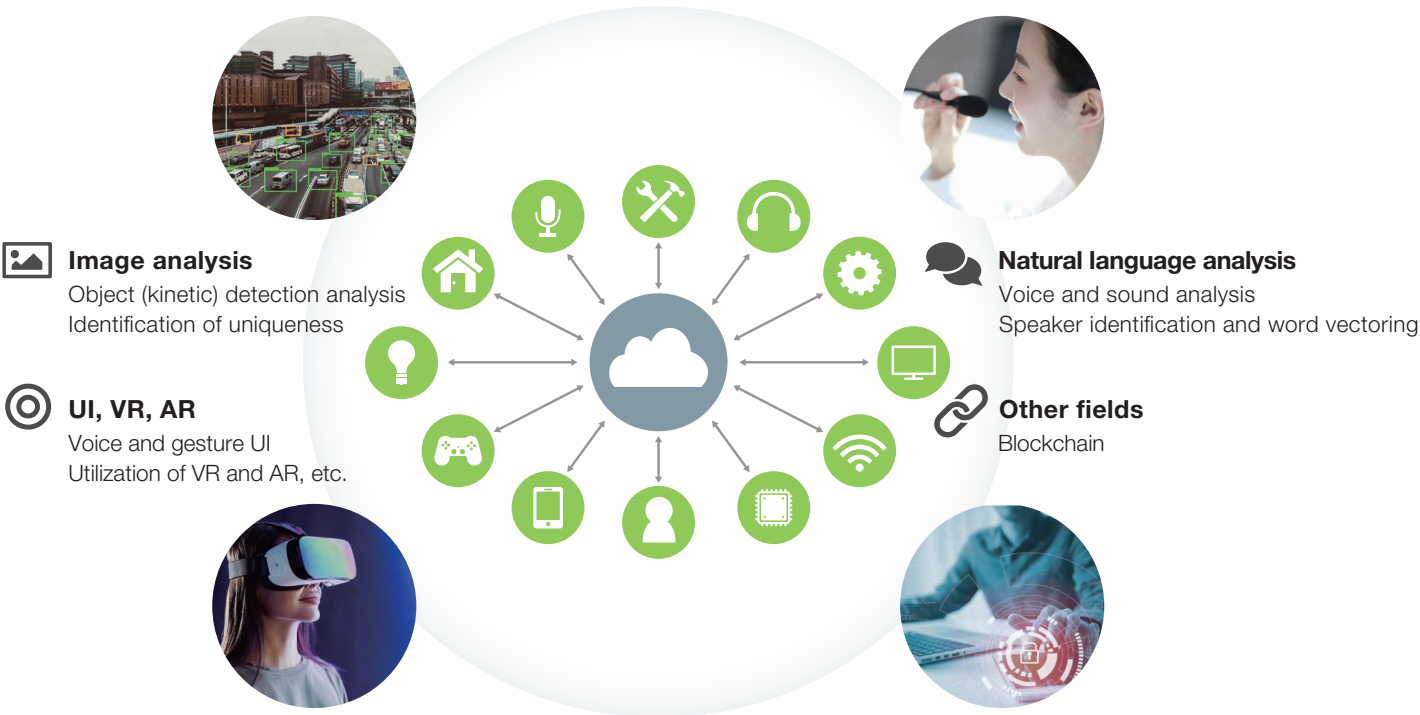
In general, R&D sometimes begins from basic research on elemental technologies with a time horizon of decades. However, at NSD Group, we consider research and development as one approach for increasing the future value of our customers. We are therefore focusing our research on technologies that are directly related to our customers' businesses.

NSD Advanced Technology Research Institute has established a unique structure whereby it engages in

research and development in partnership with major companies that represent various industries, a setup that sets us apart from other companies. As a result, we are able to listen to the true voices of our customers, thereby understanding the business challenges they face and the IT solutions they require. This enables us to find more useful and effective solutions for them.

“Grounded research into advanced technologies” that is useful for real-world business is a feature of the NSD Group.

Examples of Research



Practical Application of Advanced Technology

Due to progress made in advanced technology, we are now able to offer solutions that are more suited to our customers' needs, as well as speed up system development.

NSD is actively utilizing advanced technology in both our system development and solution businesses. Leveraging our extensive technical expertise and understanding of our customers' operations, we are meeting the increasingly sophisticated and diverse needs of our customers.

In the system development business

In addition to actively utilizing highly versatile technologies such as RPA and the cloud, we also handle niche systems such as using language analysis technology to analyze survey information as well as data from X (formerly Twitter) and Instagram for marketing and negative online sentiment detection. Leveraging our strengths as an independent system integrator, we select technologies that best meet our customers' needs from among the many advanced technology options out there, in order to offer them the most optimal systems.

Additionally, NSD has a large pool of talent who are well-versed in the latest development technologies, including employees who have been selected as AWS Heroes and those who hold the Scrum@Scale certification.

By collaborating on projects with these employees in the Advanced Solution Business Division and employees in the existing system development divisions who are well-versed in our customers' operations, we are able to provide optimal systems for solving our customers' challenges.

In the solution business

By utilizing advanced technology, we have been able to solve previous problems in solution development, making it possible to meet the needs of our customers more precisely.

For example, the flow line analysis tool "Tracking Navi" designed for factories and warehouses combines the "autonomous navigation" patented technology owned by the National Institute of Advanced Industrial Science and Technology (AIST) with NSD's lightweight technology. This enables managers to accurately track workers' movements by simply giving them a smartphone, reducing both implementation and operational costs compared with measurement methods that require the installation of numerous beacons.

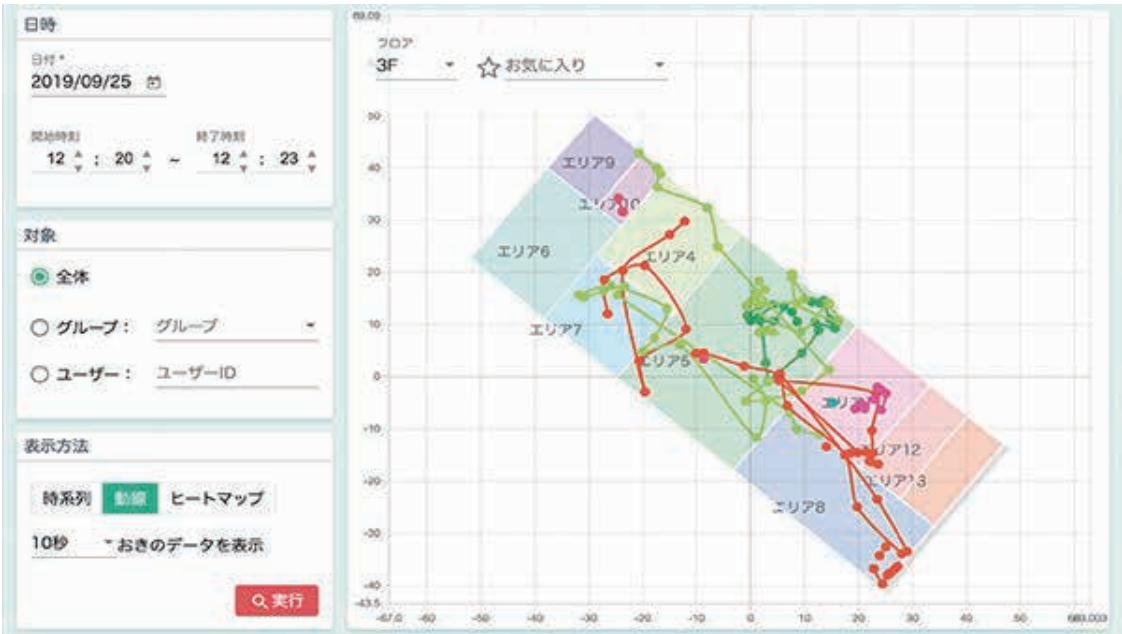
The AI meeting minutes solution, QuickDigest, utilizes voice recognition technology and speaker identification technology to transcribe spoken content for each speaker. This eliminates the need for manual sorting of speakers, which was necessary in previous meeting minutes solutions.

In addition, in order to create groundbreaking solutions,




not only is technology important, but flexible human thinking in how to utilize it is also essential. The QR code reception system for Microsoft 365 users, QuickReception, adopts a mechanism that is the opposite of the general QR code reception systems where visitors show their QR code on a dedicated terminal. With QuickReception, the visitor scans the reception's QR code and completes the check-in process in just one click. By rethinking the approach from the opposite direction, we have eliminated the costs of setting up dedicated reception terminals and the hassle of sending QR codes, thereby significantly reducing both the time and expense involved in reception tasks.

Going forward, we will continue to collaborate with our customers in implementing advanced technologies, creating useful and unique IT solutions, and contributing to social innovation.



Product Introduction

 **Tracking Navi**
Tracking Navi

Uses autonomous navigation to visualize the location information of workers operating indoors. By recording all the movements of workers that cannot be managed by warehouse/inventory management systems, we achieve the digitalization of factories and warehouses.

 **Quick Digest**
QuickDigest

Automatically creates meeting minutes with a high level of accuracy. Only one person needs to install it to transcribe an entire meeting's audio. Supports both face-to-face and online meetings. We support meeting review and information-sharing with meeting minutes that capture a sense of presence.

 **Quick Reception**
QuickReception

A fully contactless QR code reception system for Microsoft 365 users that completes check-in easily in 5 seconds. Using a mechanism that is the opposite of conventional methods, visitors can complete the check-in process simply by scanning the reception's QR code and clicking once.

 **TeA-L/Right**
TeA-L/Right

AI checks people's handwashing procedures on their behalf at all times. Offers support through example videos until the handwashing procedure can be done correctly. Reliably records who washed their hands and when; information that can then be used as evidence for hygiene management checks.

Introducing our Engineers

Shigeru Oda (joined in 2010)
Advanced Technology Development Department,
Advanced Solution Business Division

He was recognized as an AWS Hero* in 2022.

He belongs to the Company's Advanced Solution Business Division and work as an expert system engineer. Utilizing his knowledge of AWS and community management skills cultivated through various activities, He is involved in design, development, and training using cloud technology.



AWS certifications obtained by Mr. Oda (partial list)



* AWS Heroes are individuals who are recognized by AWS for their extensive knowledge and advanced skills in AWS technologies. They contribute significantly to improving the skills of AWS users by disseminating their knowledge and skills through social media, blogs, events, and workshops. As of the end of September 2023, only 16 individuals have been recognized as AWS Heroes within Japan, and they have significant influence over the AWS community worldwide.

Supporting growth through prudent and efficient financial management



NSD's financial strengths lie in its high cash flow generation capabilities and solid financial base. We aim to further enhance corporate value by leveraging these strengths in both flow and stock as well as achieving high capital efficiency. Up until now, we have expanded our business through organic growth, with the system development business as the driver. However, in our current medium-term management plan, we have decided to actively pursue non-organic growth in order to accelerate the growth of our solution business, and have committed to pursuing M&A on the scale of 20 billion yen.

Furthermore, we have always positioned shareholder returns as the most important management issue, and have been actively implementing these with a total return ratio of over 70% as our basic policy.

We are committed not only to maintaining and enhancing our cash flow generation capability but also to managing our finances with prudence and efficiency in order to support our investment in growth and shareholder returns as well as our daily business from a financial perspective.

Basic Policies for Financial Management

In order to invest in sustainable growth and proactively provide returns to shareholders, our basic policy is to prioritize capital efficiency and the ability to generate cash flow in our financial management.

For this reason, we have set ROE and EBITDA margin as KPIs in our medium-term management plan, and are

working to improve them. For fiscal 2025, the final year of the plan, we are aiming for an ROE of 16.6% and an EBITDA margin of 17.5%.

At the end of fiscal 2022, ROE was 19.3%, an increase of 3.6% from the previous year, due in part to special factors such as gains from the sale of shares associated with

the termination of capital and business alliance (excluding this gain, it was an increase of 0.4% from the previous year to 16.1%).

The EBITDA margin remained steady at 17.1%, maintaining an extremely high level within the IT industry.

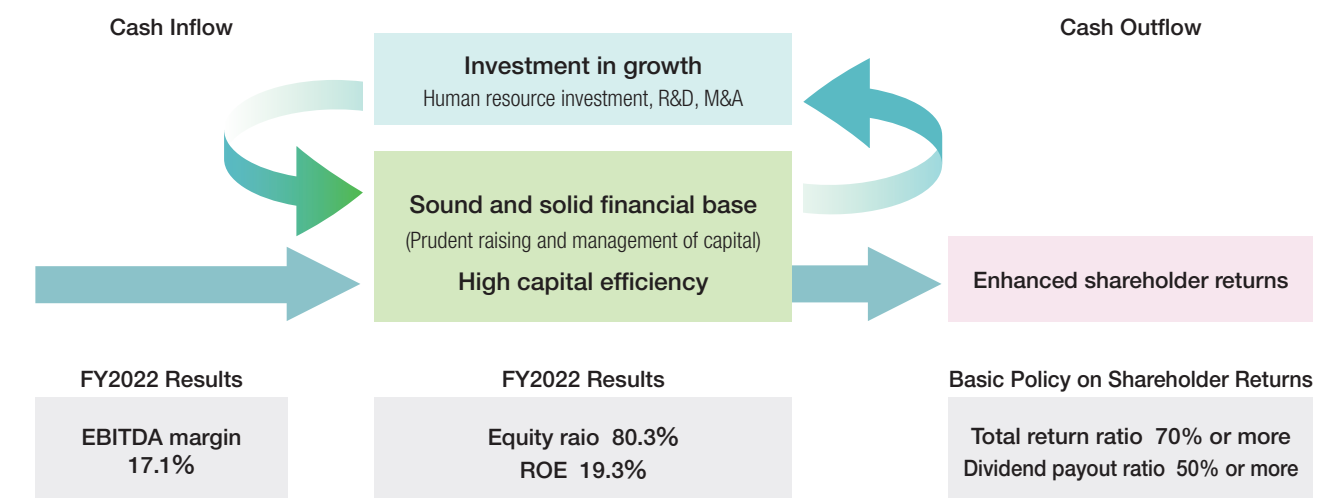
Raising and Management of Capital

Since we do not require large-scale business assets (depreciable assets) such as data centers within our businesses, as a principle we provide working capital and capital investment through cash flow from operating activities and own funds from retained earnings.

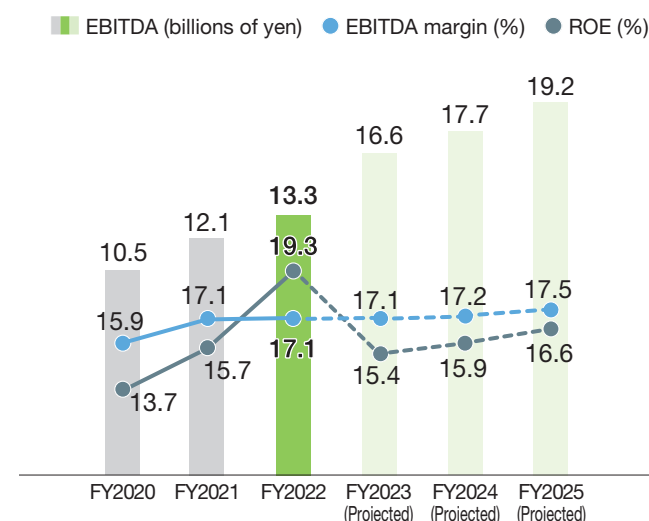
We hold an amount of funds on hand, equivalent to

three months of net sales as a guideline, to ensure the smooth operation of our businesses.

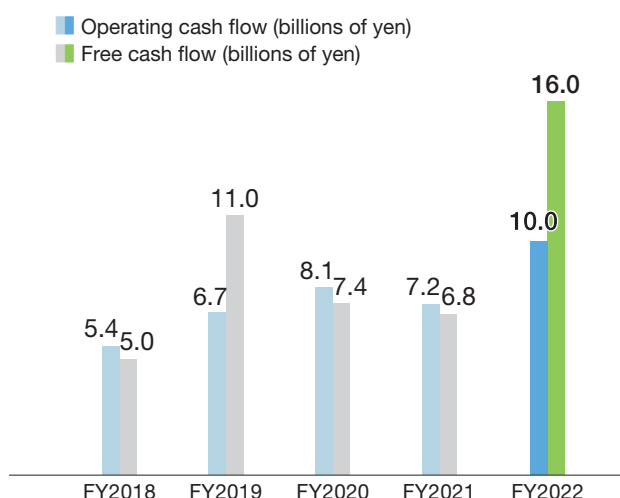
Furthermore, we make every effort to manage surplus funds safely and reliably, ensuring that we do not invest in financial instruments that carry the risk of loss of principal due to price fluctuations upon redemption.



EBITDA / EBITDA Margin / ROE



Operating Cash Flow / Free Cash Flow



Investment in Growth

The primary source of organic growth for the Company lies in acquiring human resources that underpin our operational expertise and technical capabilities, as well as in enhancing our lineup of unique solutions. Therefore, when it comes to investment in growth, we prioritize allocating funds to human resource investment and research and development costs.

In addition, to further accelerate our growth in a robust way, we have decided to fully embark on non-organic growth starting from this medium-term management plan, and have prepared a budget of 20 billion yen.

On account of environmental changes, such as the worsening shortage of system engineers, we have pursued M&A initiatives. As a result, by May 2023, we had successfully concluded three M&As totaling 19.4 billion yen. These M&As enabled us to further expand our business founda-

tion by securing more system engineers and enhancing our lineup of solutions.

We are currently focused on the post-merger integration (PMI) processes for the companies acquired through M&A. However, we would like to continue considering further M&A should favorable investment opportunities arise in the future.

Results of Investment in M&A

	Share acquisition date
Trigger Inc.	Oct. 2022
ART Holdings Co., Ltd.	Apr. 2023
NHOSA Corporation	May 2023

Cross-Shareholdings

As a principle, cross-shareholdings are held subject to the following conditions:

- (1) They must contribute to the development and expansion of the Group's businesses or the welfare and benefits of our employees.
- (2) The invested company's ROE (5-year average) must exceed our capital cost.

We also review whether these conditions of holding are

being met for each invested company on an annual basis. Based on the results of that review, we determine the holding policy for the fiscal year in question.

As a result of reducing our cross-shareholdings based on this policy, at the end of fiscal 2022, our cross-shareholdings comprised 12 stocks valued at 1.1 billion yen (including non-listed shares). The proportion of cross-shareholdings to total assets stands at 1.7%.

Shareholder Returns

Having long regarded the return of profits to shareholders as the most important management issue, we actively return profits to shareholders based on our policy of sharing outcomes of the Group on a consolidated basis.

Since fiscal 2020, we have implemented shareholder returns based on a basic policy of a dividend payout ratio of 50% or above and a total payout ratio of 70% or above (both on a consolidated basis).

In fiscal 2022, we achieved a total return ratio of 74.9%,

with a dividend payout ratio of 50.6%. This was a result of providing total shareholder returns of 7.6 billion yen, comprising dividends of 5.1 billion yen (67 yen per share annually) and share repurchase of 2.4 billion yen.

Furthermore, we aim to hold treasury stock amounting to around 10% of the total shares issued. If this number exceeds 15%, it is our policy to retire it back to approximately 10%.

Sound and Solid Financial Base

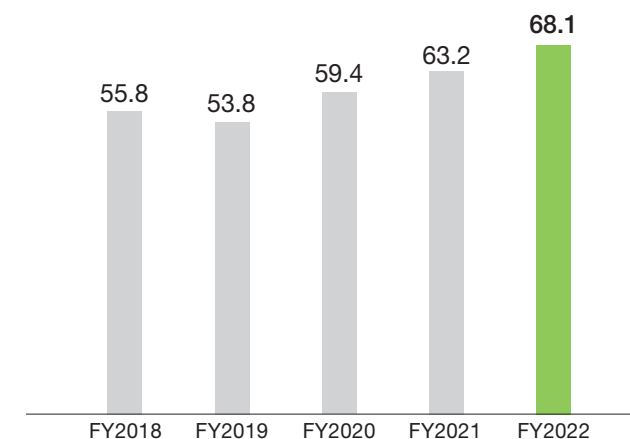
A solid financial base is essential for operating a business in a stable manner. From this perspective, we strive to consistently maintain the integrity of our balance sheet through conservative measures, such as setting prudent policies for the management of surplus

funds and strategic shareholdings.

As of the end of fiscal 2022, we have achieved a solid financial foundation with net assets of 55.4 billion yen against total assets of 68.1 billion yen.

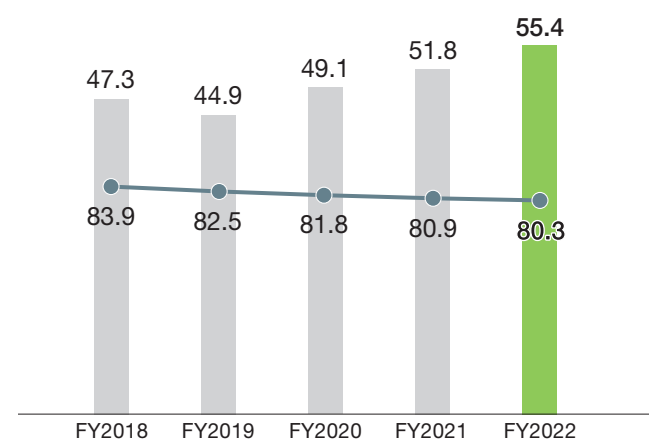
Total Assets

Total assets (billions of yen)



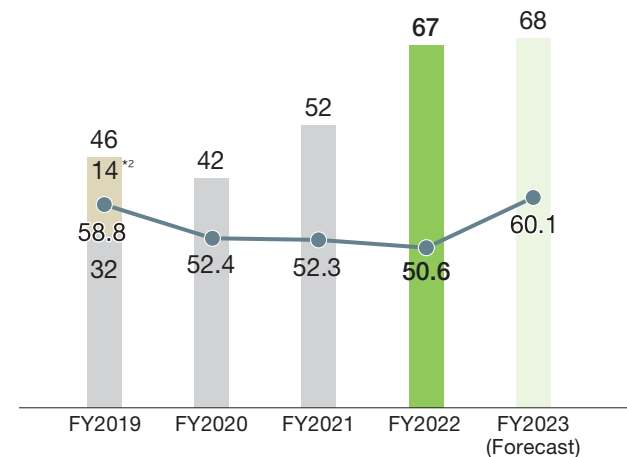
Net Assets / Equity Ratio

Net assets (billions of yen) Equity ratio (%)



Dividend per Share / Dividend Payout Ratio

Dividend per share (yen) Commemorative dividend (yen)
Dividend payout ratio (including commemorative dividend) (%)

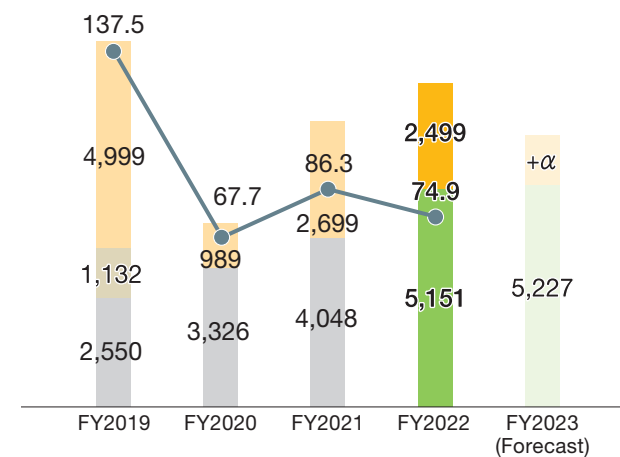


*1: The per share dividend amount is based on the number of shares after the Company's stock split executed on January 1, 2020.

*2: Commemorative dividend marking NSD's 50th anniversary.

Dividend Amount / Share Repurchase / Total Return Ratio

Common dividend (millions of yen)
Commemorative dividend (millions of yen)
Share repurchase (millions of yen) Total return ratio (%)



*1: Amounts of share repurchase and total return ratio indicate the acquisition amount and total return ratio for the period from April to March of the following year.

*2: NSD retired 1 million treasury stock in December 2019, 2,344 million treasury stock in March 2022, and 3 million treasury stock in September 2022.



Special Feature

Making NSD Stronger

Mayuko Miike

Executive Officer
General Manager of Human Resources Department

NSD believes that employees are our greatest asset. We strive to be a company that provides a rewarding workplace, where our staff can work with pride and fulfill their dreams.

With the growing importance of human capital management in recent years, NSD has significantly evolved its personnel systems, pursuing a human resource strategy with more of a management perspective. Mayuko Miike, Executive Officer and General Manager of the Human Resources Department, shared her insights regarding the NSD's human resource strategy.

Human Capital Management

Our assets are our *earnest* organizational culture, which responds to the trust of our customers, as well as our solid technical capabilities. It is our *people* who foster this environment—individuals who are sincere, passionate, and possess inner strength.

When it comes to our human resource strategy, we therefore hold dear the NSD mindset that is passed down from senior staff to newer hires through focusing on new

graduate recruitment. Furthermore, we also pursue the hiring of mid-career employees in line with our business objectives to increase the variety of perspectives and promote diversity. Additionally, by promoting autonomous learning through in-house training and mentoring, we are providing an environment where employees can thrive with job satisfaction in good health over the long term, ensuring that our company continues to be chosen as a place to grow and contribute.

Increasing Our *Fans* in a Way Unique to NSD

For us to continue being a workplace of choice in an era where every company is pursuing human capital management, it is essential that our stakeholders, including our employees, be NSD *fans*. For that reason, we are now once again in the process of refining what makes NSD unique from the perspective of human resources.

- The *earnestness* that is continuously passed down from employee to employee cultivates our organizational culture**

Our internal training is based primarily in-house, with curriculums developed and implemented by departments specializing in technology and quality, and the human resources department, which deals with so-called “soft skills.” Junior employees from advanced technology research departments also act as instructors, with the training also serving as a venue to roll out technologies internally. Instructors for new employee technical training are senior staff from their assigned divisions who, based on the standard curriculum, teach not only technical skills but also the behavior expected of working professionals and the basics of being a system engineer, while applying their own creativity and ingenuity. When on-the-job training begins, trainers and senior employees provide guidance with the sort of passion from

- Meritocracy is the source of producing solid technical capabilities**

Although new graduate recruitment is core for us, our company atmosphere that is not bound by academic background or age is in large part due to both the message from management and the functioning of the personnel system. We have introduced the concept of Mission Grade, promoting individuals to positions of great responsibility regardless of age, gender, or how they were recruited. Additionally, we have established a dual track to provide career paths for highly specialized fields, allowing employees with a strong orientation toward technology to receive salaries and benefits commensurate with their expertise through enhancing their specialization. We also

NSD's Human Resource Strategy

- Valuing the NSD mindset that is passed down from senior to junior employees, with a focus on new graduate recruitment
- Also pursuing mid-career recruitment in line with our business objectives to increase different perspectives and promote diversity
- Promoting autonomous learning through in-house training and mentoring
- Providing an environment where employees can thrive with job satisfaction in good health over the long term

Details ▶▶ P.39・40

have a system in place that rewards departmental results at the end of the fiscal year through a performance-linked bonus. This meritocracy also serves as a source of producing our solid technical capabilities. We believe that technical capabilities include not only IT skills but also an understanding of the customer's operations and proficiency in that area. We therefore do not carry out regular employee reassignments that significantly change their area of

specialization. Instead, we have a system that allows for flexible responses according to project needs.

Through revisions to our systems going forward, we will aim to encourage motivated staff to take on positions with greater responsibility, on the other hand, present clear career paths for engineers who wish to steadily progress, we bring out the strengths of each individual, thereby achieving growth for our employees.

Having Employees Who Like the Company Strengthens Its Organization

According to our internal survey for fiscal 2022, the figures for employees' willingness to continue working for us and their engagement metrics were positive in all categories. In an era where lifestyles are changing and people have more choices in the way they work, I believe that having employees with the sentiment “I like this company” strengthens the organization.

Going forward, we will continue to cherish our employees and maintain an environment where they can thrive with job satisfaction in good health over the long term. Through pursuing our human resource strategy, we aim to be the company of choice for our employees and other stakeholders alike.

Topic

Embodying What is Unique to NSD in Health and Productivity Management

At NSD, we are actively engaged in creating an environment where employees can continue to work in good physical and mental health, enabling us to strengthen our management foundation by securing outstanding talent and improving employee productivity.

In particular, the NSD Health Insurance Association takes advantage of its unique characteristic as the Group's unified health insurance association to offer proactive support on both mental and physical health issues common across the Group, in collaboration with the Company. This support extends to the health and well-being of employees and their families.

Furthermore, the Healthcare Business Division develops and provides solutions that support the health and productivity management of corporations. By utilizing these solutions and the expertise possessed by this division in our own health and productivity management initiatives, we are promoting a style of health and productivity management that leverages NSD's distinctive features.

More details about NSD's health and productivity management initiatives ▶▶ P.52

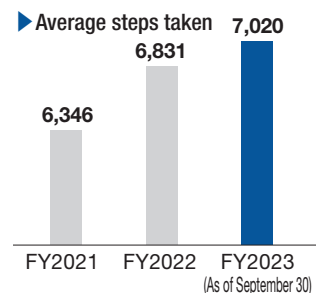
Improvement of lifestyle habits combined with employee interaction

Internal company events utilizing “CARENA,” an app developed in-house

“CARENA de Nihon Isshu” (Around Japan with CARENA) (Running since October 2022)

This walking rally event involves a virtual tour around Japan by converting the number of steps logged in the app into distance. When participants reach checkpoints located in various regions, local gourmet foods are delivered to their homes. The event has sparked conversations among employees asking one another “How far have you gone?” fostering a sense of unity while also being enjoyable.

The average number of steps taken by employees has increased since before the event, contributing to the enhancement of their health.



- Valuing the NSD mindset that is passed down from senior to junior employees, with a focus on new graduate recruitment
- Also pursuing mid-career recruitment in line with our business objectives to increase different perspectives and promote diversity

Recruitment

At NSD, in addition to skills and experience, we regard the attitude of engaging with work in a sincere manner to be an important asset. To facilitate the inheritance of such a mindset within the organization, we focus our recruitment activities on new graduate hires. Given that we base our approach on in-house training and development, our selection process does not focus on the presence of knowledge at the time of joining the Company or on academic background—nor does it consider gender. Instead, we place importance on suitability for the system engineer role, compatibility of the individual's personality with our organizational culture, and a high level of eagerness to learn.

On the other hand, in order to strengthen our capability to deal with cutting-edge technologies, we are also hiring a set number of individuals who have researched advanced

technologies during their student years to be immediate contributors to our workforce. These individuals are assigned to advanced technology research departments immediately upon joining the Company and are demonstrating high performance from an early stage in their careers.

In recent years, we have also been focusing on acquiring talent through mid-career recruitment in line with our business objectives. While emphasizing unity within the organization through the inheritance of the NSD mindset, we are also increasing different perspectives and promoting diversity.

Additionally, we pursue various strategies to be an attractive place of employment by enabling diverse working styles that align with individual preferences by establishing offices in regions other than where our main offices are located, catering to the employment needs of locally-oriented engineers.

Ratio of new graduate hires

92.8%

Ratio of women in new graduate hires

46.7%

Sendai Business Site, established in August 2022

Hiroshima Business Site, established in December 2022

- Promoting autonomous learning through in-house training and mentoring

Human Resource Development

At NSD, our management philosophy speaks of “pushing the boundaries of IT.” To meet the rapidly diversifying and sophisticated needs of customers arising from the advancement of IT, NSD is implementing a variety of technical training programs to ensure that employees can acquire cutting-edge skills. Employees from advanced technology research departments serve as instructors, making it a venue to roll out technologies internally as well.

Examples of technical training in FY2022

- Scrum development for beginners
- Agile development—testing and quality
- Agile project management using scrum development
- Agile development—test-driven development and automation
- Getting started with Angular
- Getting started with Nest.js
- Readable code reading club

Additionally, to promote autonomous learning, we have established a financial incentive system for employees gaining qualifications, targeting a wide range of credentials. We keep the eligible qualifications and incentive amounts under regular review.

In addition to enhancing IT skills, we also conduct thorough training to improve soft skills. We offer annual training on basic skills as a working professional for employees (new graduate hires) up to their third year with the Company. Furthermore, when employees are promoted, we provide training to help them contemplate their personal vision as well as management-related training.

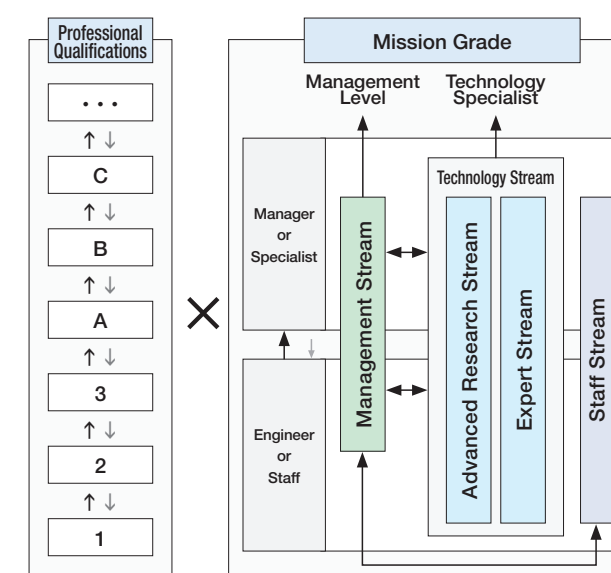
The training curriculum is developed in a mutually complementary way by departments specializing in technology and quality and the human resources department, which deals with soft skills.

- Providing an environment where employees can thrive with job satisfaction in good health over the long term

Personnel System

NSD's personnel system combines the concepts of a job professional qualification system with the Mission Grade system, creating a structure that reflects both the level of contribution to the company in the medium to long term, and the role and skills in the short to medium term. We operate on a meritocratic system where both younger employees and mid-career hires are promoted to important roles. At the end of the fiscal

▶ NSD's personnel system (including system revisions for FY2024)



year, bonuses reflecting the performance of their respective departments are distributed with the aim of rewarding the results of their work. At NSD, evaluations are never affected by gender or nationality, and pay for men and women is equivalent when viewed by job rank for regular employees.

When it comes to promotion, we have established systems for managerial and advanced specialist positions, under the concept of encouraging diverse and flexible career formation that matches the role being undertaken and the goals of the individual employee. For fiscal 2024, the system of advanced specialist positions will be divided into a Technical Stream and a Staff Stream. Furthermore, within the Technical Stream, we will establish an Advanced Research Stream to lead new technologies and DX-related fields through cutting-edge and pioneering research, as well as an Expert Stream where individuals can demonstrate their exceptional expertise, aiming to raise the ranks of highly specialized personnel.

▶ Gender pay gap for regular employees by job rank (FY2022)

Managers	Section Heads	General employees
93.3%	96.5%	93.0%

* The percentage represents the wages of female employees relative to male employees (taking the latter to be 100%).

* The fact that the pay ratio is in the 90-100% range for all ranks is due to the presence of different professional grades within each rank, differences in the gender composition ratio by grade, as well as the average age of female employees being lower compared to male employees, among other factors.

Human Resource Retention

NSD's employee turnover rate hovers around the 3% mark, which is low compared with others in the industry. The average length of service is also increasing, reaching 15.3 years in fiscal 2022. This also compares favorably with industry peers.

We regard our employees as our greatest asset, and believe that we have been able to maintain a high retention rate of talented staff through the implementation of various measures aimed at creating and maintaining a comfortable working environment.

- Implemented base salary increases from FY2022 to FY2023
- 20% of contributions provided as an incentive in the employee stock ownership association
- Generous healthcare support provided through the Group's unified health insurance association
- Systems established that go beyond statutory requirements, such as allowing reduced working hours while children are in elementary school
- Systems established for off-peak commuting, paid leave by the hour, and a system that allows employees to accumulate a fixed amount of paid leave
- Employees with over ten years of service granted additional leave for meritorious long service on an annual basis



Enhancing work-life balance

Asset accumulation

Physical and mental health

Enhancing a sense of belonging to the Company

Results of the internal survey for FY2022

- I want to continue working for this company going forward 78%
- I want to contribute more than what is expected of me by the Company and my manager 75%

* Willingness to continue working for the Company and engagement metrics were positive in all categories.