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Consolidated Financial Results for the First Quarter of Fiscal 2022 (April 1, 2022 - June 30, 2022) [under IFRS]

August 2, 2022

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Stock exchange listing: Tokyo Stock Exchange
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Scheduled date of filing quarterly securities report: August 10, 2022
Scheduled date of commencing dividend payments: –
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of quarterly financial results briefing session: Scheduled (for analysts)

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

1. Consolidated Financial Results for the First Quarter of Fiscal 2022 (April 1, 2022 to June 30, 2022)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2022 1Q	65,132	(0.6)	6,484	(11.9)	6,652	(12.7)	4,352	(8.4)
FY2021 1Q	65,519	–	7,363	–	7,618	–	4,750	–

	Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Million yen	%	Yen	Yen
FY2022 1Q	(5,784)	–	47.57	–
FY2021 1Q	5,432	–	51.92	–

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
FY2022 1Q	303,592	195,233	188,623	62.1
FY2021	325,764	204,569	197,831	60.7

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2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2021	–	30.00	–	36.00	66.00
FY2022	–				
FY2022 (Forecast)		35.00	–	35.00	70.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Consolidated Financial Results Forecast for Fiscal 2022 (April 1, 2022 to March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	144,000	10.1	14,500	2.3	14,800	2.1	9,700	2.5	106.02
Full year	295,000	9.1	31,000	3.7	31,500	2.6	21,100	2.8	230.63

(Note) Revision to the financial results forecast announced most recently: No

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*** Notes:**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: None
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting estimates: None

(4) Total number of issued shares (common stock)

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

FY2022 1Q:	91,501,000 shares
FY2021:	91,501,000 shares

2) Total number of treasury shares at the end of the period:

FY2022 1Q:	14,323 shares
FY2021:	923 shares

3) Average number of shares during the period:

FY2022 1Q:	91,492,073 shares
FY2021 1Q:	91,500,207 shares

* This quarterly consolidated financial results report is exempt from the quarterly review conducted by certified public accountants or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

- The Group adopted the International Financial Reporting Standards (IFRS) from the three months ended June 30, 2022. The consolidated financial statements for the transition date, the same period of the previous fiscal year, and the previous fiscal year are presented based on IFRS.
- The forecasts stated above are based on information available as of the date of publication of this document. Actual results may differ from these forecasts due to a wide range of factors hereafter.

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1. Qualitative Information on Quarterly Financial Results

(1) Operating Results

Analysis of operating results

Japan saw signs of economic recovery during the three months ended June 30, 2022. Corporate earnings have generally improved despite weakness in some areas, and system investment by client companies has increased moderately.

Based on the Mid-term Business Strategy 2021–2025 published in April 2021, NS Solutions Corporation (hereinafter the "Company" or collectively referred to as the "Group") defined four focus areas for business growth: DX in the manufacturing industry, digital platformer, digital workplace solution, and IT outsourcing. We are endeavoring to expand our business by capturing customer needs for digital transformation to the greatest extent possible.

As part of efforts to achieve growth, we worked to enhance our response capabilities in the digital transformation (DX) services. In April this year, the Company entered into a capital and business alliance agreement with Arithmer Inc., which has advanced mathematical AI technology, for the purpose of enhancing our capabilities to respond to customer needs in the AI domain by strengthening and expanding Arithmer's AI technology capabilities. In June, the Company entered into a strategic partnership with Pegasystems Inc. to jointly conduct sales and marketing activities for its low-code development platform in Japan and to support the digitization of business processes for various customers mainly in the enterprise domain. Furthermore, the Company also worked to develop new solutions as it launched the provision of "Enepharos," energy trading and risk management services, in June.

In addition, we proceeded with our efforts to promote DX for Nippon Steel Corporation. These efforts included the building of "NS-IoT," a wireless IoT sensor platform for centralized management of data from steel manufacturing sites, and the launch of its actual operation in April for the purpose of early detection of abnormalities in facilities. We also built "NS-Lib," an integrated data platform that allows for grasping management information and KPIs on a real-time basis and taking appropriate actions based on our integrated data management services.

In the promotion of sustainability management, we have organized our value creation process based on our goals to achieve the purpose of our existence in society, defined five material issues, and are working to address them. Regarding our initiatives toward the reduction of environmental impacts, which is one of the material issues, the Company has endorsed the TCFD recommendations and set a reduction target for GHG emissions. The Company is also engaged in efforts to foster an organizational culture where everyone can work energetically with a sense of fulfillment, such as the promotion of diversity and inclusion, working on various business activities from the perspective of ESG to create a prosperous society, including its support and sponsorship for "Tokyo Rainbow Pride 2022." As a result of these efforts, the Company has been newly selected as an index component of the FTSE Blossom Japan Sector Relative Index, in addition to the FTSE4Good Index Series and FTSE Blossom Japan Index, which are ESG investment benchmarks.

Revenue for the three months ended June 30, 2022 amounted to 65,132 million yen, a similar level to the same period of the previous fiscal year (65,519 million yen). This was due partly to an increase in the platformer-related business, despite some delays in addition to reactionary declines in product sales and projects related to regulatory compliance. Profit before tax amounted to 6,652 million yen, a decrease of 966 million yen compared to 7,618 million yen for the same period of the previous fiscal year, due to an increase in selling, general and administrative expenses as a result of proactive investments in human resources and others.

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(2) Financial Position

1) Analysis of financial position

Total assets at the end of the three months ended June 30, 2022 amounted to 303,592 million yen, a decrease of 22,171 million yen compared to 325,764 million yen at the end of the previous fiscal year. This was mainly due to a decrease of 14,939 million yen in trade and other receivables, a decrease of 14,596 million yen in other financial assets, and an increase of 6,529 million yen in inventories.

Total liabilities at the end of the three months ended June 30, 2022 amounted to 108,358 million yen, a decrease of 12,835 million yen compared to 121,194 million yen at the end of the previous fiscal year. This was mainly due to decreases of 5,137 million yen in bonus payable included in other current liabilities, 4,899 million yen in deferred tax liabilities, 4,509 million yen in trade and other payables, 3,807 million yen in income taxes payable, and 2,037 million yen in lease liabilities, against an increase of 8,154 million yen in contract liabilities.

Total equity at the end of the three months ended June 30, 2022 amounted to 195,233 million yen, a decrease of 9,336 million yen compared to 204,569 million yen at the end of the previous fiscal year. The breakdown mainly includes 4,426 million yen of profit, minus 10,211 million yen of other comprehensive income, minus 3,501 million yen of dividends paid, and minus 49 million yen of purchase of treasury shares. As a result, ratio of equity attributable to owners of parent to total assets was 62.1%.

2) Cash flows

Statement of cash flows

The balance of cash and cash equivalents at the end of the three months ended June 30, 2022, was 95,215 million yen. Net decrease in cash and cash equivalents during the first quarter of the current fiscal year was 490 million yen, compared to a net increase of 6,893 million yen for the same period of the previous year. Cash flows by activity type are as follows.

i) Cash flows from operating activities

For the three months ended June 30, 2021, cash inflow from operating activities was 13,395 million yen. This mainly consists of 7,618 million yen of profit before tax, 2,768 million yen of depreciation and amortization, 18,613 million yen of decrease in trade and other receivables, 4,091 million yen of increase in contract assets, 5,587 million yen of increase in inventories, 7,114 million yen in increase in trade and other payables, 4,748 million yen of decrease in bonus payable, and 3,678 million yen of income taxes paid. On the other hand, for the three months ended June 30, 2022, cash inflow from operating activities resulted in 6,477 million yen. This mainly consists of 6,652 million yen of profit before tax, 3,102 million yen of depreciation and amortization, 14,733 million yen of decrease in trade and other receivables, 3,100 million yen of increase in contract assets, 6,470 million yen of increase in inventories, 6,152 million yen in increase in trade and other payables, 5,142 million yen of decrease in bonus payable, and 6,185 million yen of income taxes paid.

ii) Cash flows from investing activities

For the three months ended June 30, 2021, cash outflow from investing activities was 2,119 million yen. This mainly consists of 1,034 million yen of purchase of other financial assets and 929 million yen of purchase of property, plant and equipment, and intangible assets. On the other hand, for the three months ended June 30, 2022, cash outflow from investing activities resulted in 1,507 million yen. This mainly consists of 2,229 million yen of purchase of other financial assets, 1,253 million yen of purchase of property, plant and equipment, and intangible assets, and 2,036 million yen of proceeds from sale and redemption of other financial assets.

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iii) Cash flows from financing activities

For the three months ended June 30, 2021, cash outflow from financing activities was 4,488 million yen. This mainly consists of 2,516 million yen of dividends paid and 1,753 million yen of repayments of lease liabilities. On the other hand, for the three months ended June 30, 2022, cash outflow from financing activities resulted in 5,592 million yen. This mainly consists of 3,294 million yen of dividends paid and 2,040 million yen of repayments of lease liabilities.

Information on capital resources and liquidity of funds

i) Basic policy

The Group believes that it is important to continuously maintain and strengthen its competitiveness and increase its corporate value into the future.

Therefore, we seek to maintain sufficient internal reserves to prepare for capital requirements for business growth and business risks such as wide-area disasters. The capital requirements include those for initiatives to steadily capture evolving DX needs, continuously enhance high-value-added businesses and overall corporate value, further strengthen acquisition and training of excellent human resources, and conduct thorough internal controls and risk management. At the same time, regarding profit distribution, our basic policy is to implement appropriate and stable distribution of dividends to shareholders.

We aim for a consolidated dividend payout ratio of 30%, with a focus on returning profits to shareholders in line with consolidated performance.

ii) Capital requirements and financing

Major capital requirements of the Group include capital expenditures and operating expenses such as material costs, outsourcing costs, labor costs, overhead costs, and selling, general and administrative expenses. Those capital requirements are satisfied by own funds.

As for working capital on hand, the Company and some of its domestic subsidiaries have introduced the Company's cash management system (CMS) to concentrate surplus funds from subsidiaries in the Company for centralized management. The Company uses Nippon Steel Corporation's CMS. The deposit amount of 89,970 million yen at the end of the three months ended June 30, 2022, was included in cash and cash equivalents.

For unexpected capital requirements, the Company has overdraft arrangements with major banks and Nippon Steel Corporation, its parent company, to prepare for liquidity risks.

(3) Consolidated Financial Results Forecast and Other Forward-looking Information

No revisions have been made to the consolidated financial results forecast announced on April 28, 2022.

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2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statements of Financial Position

(Millions of yen)

	As of April 1, 2021 (Transition date)	As of March 31, 2022	As of June 30, 2022
Assets			
Current assets			
Cash and cash equivalents	78,579	95,706	95,215
Trade and other receivables	56,029	55,904	40,965
Contract assets	11,240	11,592	14,700
Inventories	18,559	19,648	26,177
Other financial assets	1,208	2,380	3,439
Other current assets	1,759	2,112	2,395
Total current assets	167,377	187,343	182,894
Non-current assets			
Property, plant and equipment	20,925	21,035	20,587
Right-of-use assets	34,906	31,276	29,274
Goodwill	2,923	2,923	2,923
Intangible assets	1,532	2,771	3,066
Investments accounted for using equity method	123	163	153
Other financial assets	72,297	76,147	60,491
Deferred tax assets	3,875	3,892	4,001
Other non-current assets	170	210	200
Total non-current assets	136,755	138,420	120,698
Total assets	304,133	325,764	303,592

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(Millions of yen)

	As of April 1, 2021 (Transition date)	As of March 31, 2022	As of June 30, 2022
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19,469	24,108	19,599
Contract liabilities	12,055	12,311	20,466
Lease liabilities	6,661	7,626	7,248
Other financial liabilities	1,083	1,074	3,817
Income taxes payable	3,753	6,476	2,669
Provisions	2,254	890	741
Other current liabilities	14,587	15,268	7,007
Total current liabilities	59,866	67,757	61,550
Non-current liabilities			
Lease liabilities	28,089	23,894	22,234
Other financial liabilities	786	321	-
Retirement benefit liability	10,956	11,205	11,505
Provisions	3,081	3,190	3,160
Deferred tax liabilities	10,654	10,650	5,751
Other non-current liabilities	3,036	4,174	4,155
Total non-current liabilities	56,604	53,436	46,807
Total liabilities	116,471	121,194	108,358
Equity			
Share capital	12,952	12,952	12,952
Capital surplus	9,950	9,950	9,950
Retained earnings	119,621	134,844	136,524
Treasury shares	(2)	(2)	(52)
Other components of equity	38,847	40,086	29,249
Total equity attributable to owners of parent	181,370	197,831	188,623
Non-controlling interests	6,290	6,738	6,609
Total equity	187,661	204,569	195,233
Total liabilities and equity	304,133	325,764	303,592

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(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Condensed Quarterly Consolidated Statements of Comprehensive Income

Condensed Quarterly Consolidated Statements of Profit or Loss

Three months ended June 30, 2021 and 2022

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Revenue	65,519	65,132
Cost of sales	(50,679)	(50,360)
Gross profit	14,840	14,771
Selling, general and administrative expenses	(7,577)	(8,280)
Share of profit (loss) of investments accounted for using equity method	(7)	(9)
Other income	129	27
Other expenses	(20)	(24)
Operating profit	7,363	6,484
Finance income	327	283
Finance costs	(72)	(116)
Profit before tax	7,618	6,652
Income tax expense	(2,789)	(2,225)
Profit	4,828	4,426
Profit attributable to:		
Owners of parent	4,750	4,352
Non-controlling interests	78	74
Earnings per share		
Basic earnings per share (yen)	51.92	47.57

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Condensed Quarterly Consolidated Statements of Comprehensive Income

Three months ended June 30, 2021 and 2022

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit	4,828	4,426
Other comprehensive income, net of tax effect		
Items that will not be reclassified to profit or loss		
Remeasurement of net defined benefit liability (asset)	(0)	(40)
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	459	(10,345)
Total of items that will not be reclassified to profit or loss	459	(10,386)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	144	175
Total of items that may be reclassified to profit or loss	144	175
Total other comprehensive income, net of tax effect	603	(10,211)
Comprehensive income	5,432	(5,784)
Comprehensive income attributable to:		
Owners of parent	5,349	(5,863)
Non-controlling interests	83	78

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(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Retained earnings	Treasury shares	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurement of net defined benefit liability (asset)
Balance at beginning of period	12,952	9,950	119,621	(2)	38,847	–
Profit	–	–	4,750	–	–	–
Other comprehensive income	–	–	–	–	459	(0)
Comprehensive income	–	–	4,750		459	(0)
Dividends of surplus	–	–	(2,516)	–	–	–
Purchase of treasury shares	–	–	–	(0)	–	–
Transfer from other components of equity to retained earnings	–	–	(0)	–	–	0
Total transactions with owners	–	–	(2,516)	(0)	–	0
Balance at end of period	12,952	9,950	121,856	(2)	39,307	–

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total		
	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	–	38,847	181,370	6,290	187,661
Profit	–	–	4,750	78	4,828
Other comprehensive income	138	598	598	5	603
Comprehensive income	138	598	5,349	83	5,432
Dividends of surplus	–	–	(2,516)	(218)	(2,734)
Purchase of treasury shares	–	–	(0)	–	(0)
Transfer from other components of equity to retained earnings	–	0	–	–	–
Total transactions with owners	–	0	(2,516)	(218)	(2,734)
Balance at end of period	138	39,446	184,203	6,156	190,359

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Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Retained earnings	Treasury shares	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurement of net defined benefit liability (asset)
Balance at beginning of period	12,952	9,950	134,844	(2)	39,892	–
Profit	–	–	4,352	–	–	–
Other comprehensive income	–	–	–	–	(10,345)	(40)
Comprehensive income	–	–	4,352		(10,345)	(40)
Dividends of surplus	–	–	(3,294)	–	–	–
Purchase of treasury shares	–	–	–	(49)	–	–
Transfer from other components of equity to retained earnings	–	–	621	–	(661)	40
Total transactions with owners	–	–	(2,672)	(49)	(661)	40
Balance at end of period	12,952	9,950	136,524	(52)	28,884	–

	Equity attributable to owners of parent			Non-controlling interests	Total equity
	Other components of equity		Total		
	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	193	40,086	197,831	6,738	204,569
Profit	–	–	4,352	74	4,426
Other comprehensive income	170	(10,215)	(10,215)	4	(10,211)
Comprehensive income	170	(10,215)	(5,863)	78	(5,784)
Dividends of surplus	–	–	(3,294)	(207)	(3,501)
Purchase of treasury shares	–	–	(49)	–	(49)
Transfer from other components of equity to retained earnings	–	(621)	–	–	–
Total transactions with owners	–	(621)	(3,343)	(207)	(3,551)
Balance at end of period	364	29,249	188,623	6,609	195,233

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(4) Condensed Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Cash flows from operating activities		
Profit before tax	7,618	6,652
Depreciation and amortization	2,768	3,102
Interest income	(52)	(62)
Dividend income	(164)	(172)
Interest expenses	12	27
Share of loss (profit) of investments accounted for using equity method	7	9
Decrease (increase) in trade and other receivables	18,613	14,733
Decrease (increase) in contract assets	(4,091)	(3,100)
Decrease (increase) in inventories	(5,587)	(6,470)
Increase (decrease) in trade and other payables	7,114	6,152
Increase (decrease) in bonus payable	(4,748)	(5,142)
Increase (decrease) in consumption tax payable etc.	(3,212)	(2,965)
Other	(1,413)	(312)
Subtotal	16,865	12,451
Interest received	56	75
Dividends received	164	163
Interest paid	(12)	(27)
Income taxes paid	(3,678)	(6,185)
Net cash provided by (used in) operating activities	13,395	6,477
Cash flows from investing activities		
Payments into time deposits	(160)	(43)
Purchase of property, plant and equipment, and intangible assets	(929)	(1,253)
Purchase of other financial assets	(1,034)	(2,229)
Proceeds from sale and redemption of other financial assets	1	2,036
Other	3	(17)
Net cash provided by (used in) investing activities	(2,119)	(1,507)
Cash flows from financing activities		
Repayments of lease liabilities	(1,753)	(2,040)
Dividends paid	(2,516)	(3,294)
Dividends paid to non-controlling interests	(218)	(207)
Purchase of treasury shares	(0)	(49)
Net cash provided by (used in) financing activities	(4,488)	(5,592)
Effect of exchange rate changes on cash and cash equivalents	105	131
Net increase (decrease) in cash and cash equivalents	6,893	(490)
Cash and cash equivalents at beginning of period	78,579	95,706
Cash and cash equivalents at end of period	85,473	95,215

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(5) Notes to Condensed Quarterly Consolidated Financial Statements

Going concern assumption

Not applicable.

First-time adoption

The Group has disclosed its condensed quarterly consolidated financial statements in accordance with IFRS from the three months ended June 30, 2022. The latest consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP") are those for the fiscal year ended March 31, 2022. The date of transition to IFRS from Japanese GAAP is April 1, 2021.

(1) Exemptions under IFRS 1

IFRS requires first-time adopters, in principle, to retrospectively apply standards required under IFRS. However, IFRS 1 provides for optional exemptions and mandatory exceptions to retrospective application for certain standards required under IFRS. The effects of applying these exemptions and exceptions have been accounted for as reconciliation of retained earnings or other components of equity as of the transition date.

The optional exemptions mainly applied by the Group are as follows:

• Business combinations

IFRS 1 permits a first-time adopter not to apply IFRS 3 retrospectively to business combinations that occurred before the transition date. If any business combination is restated upon retrospective application, all later business combinations shall be restated to comply with IFRS 3.

The Group has elected not to apply IFRS 3 retrospectively to business combinations that occurred before the transition date. Therefore, goodwill arising from the business combinations that occurred before the transition date remains recognized at the carrying amount under Japanese GAAP. The goodwill was tested for impairment at the transition date, regardless of whether there was any indication of impairment.

• Exchange differences on translation of foreign operations

IFRS 1 permits a first-time adopter to deem the cumulative exchange differences on translation of foreign operations as of the transition date to be zero. The Group has elected to deem the cumulative exchange differences on translation of foreign operations to be zero as of the transition date, which are recognized in retained earnings.

• Designation of financial instruments recognized before the transition date

IFRS 1 permits a first-time adopter to designate financial assets in accordance with IFRS 9 *Financial Instruments* on the basis of the facts and circumstances that exist as at the transition date. The Group has designated equity instruments that were held as at the transition date as financial instruments measured at fair value through other comprehensive income (equity instruments) on the basis of the circumstances that existed as at the transition date.

• Leases (as lessee)

IFRS 1 permits a first-time adopter to apply the new lease definition to contracts existing at the transition date on the basis of facts and circumstances existing as at that date. When a first-time adopter that is a lessee recognizes lease liabilities and right-of-use assets, it may measure lease liabilities and right-of-use assets for all of its leases at the transition date. The Group measured lease liabilities at the transition date at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the transition date. The Group measured right-of-use assets at the transition date at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognized in the statement of

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financial position immediately before the transition date. IAS 36 *Impairment of Assets* was applied to right-of-use assets at the transition date. With regard to the leases for which the lease term ends within 12 months of the transition date and the leases for which the underlying asset is of low value, the lease payments associated with those leases are recognized as an expense.

(2) Mandatory exceptions to retrospective application under IFRS 1

IFRS 1 prohibits the retrospective application of IFRS for certain items including "estimates," "derecognition of financial assets and financial liabilities," "hedge accounting," "non-controlling interests," and "classification and measurement of financial assets." The Group has applied IFRS to these items prospectively from the transition date.

(3) Reconciliations

The reconciliations required to be disclosed under IFRS 1 are as follows. "Reclassification" includes reconciliations that do not affect retained earnings and comprehensive income. "Difference in recognition and measurement" includes reconciliations that affect retained earnings and comprehensive income.

Reconciliation of equity as of April 1, 2021 (Transition date)

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	5,255	73,324	–	78,579	I	Cash and cash equivalents
Deposits paid	73,530	(73,530)	–	–		
Notes and accounts receivable - trade	55,548	481	–	56,029		Trade and other receivables
Contract assets	11,240	–	–	11,240		Contract assets
Securities	1,000	206	1	1,208	H, I	Other financial assets
Work in process	18,517	42	–	18,559	G	Inventories
Raw materials and supplies	42	(42)	–	–		
Other	2,612	(506)	(346)	1,759	E	Other current assets
Allowance for doubtful accounts	(25)	25	–	–		
Total current assets	167,721	–	(344)	167,377		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	22,416	(1,491)	–	20,925		Property, plant and equipment
	–	2,074	32,831	34,906	E	Right-of-use assets
	–	2,923	–	2,923	B	Goodwill
Intangible assets	5,040	(3,507)	–	1,532		Intangible assets
	–	123	–	123		Investments accounted for using equity method
Investment securities	65,160	6,317	819	72,297	A, H	Other financial assets
Deferred tax assets	4,127	–	(251)	3,875	C	Deferred tax assets
Guarantee deposits	6,336	(6,336)	–	–		
Other	324	(153)	–	170		Other non-current assets
Allowance for doubtful accounts	(48)	48	–	–		
Total non-current assets	103,356	–	33,398	136,755		Total non-current assets
Total assets	271,078	–	33,054	304,133		Total assets

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(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	15,884	3,585	–	19,469		Trade and other payables
Lease obligations	901	–	5,759	6,661	E	Lease liabilities
Accounts payable - other	9,099	(9,099)	–	–		
Income taxes payable	3,753	–	–	3,753		Income taxes payable
Contract liabilities	12,055	–	–	12,055		Contract liabilities
Provision for bonuses	9,553	(9,553)	–	–		
Provision for loss on order received	1,959	294	–	2,254		Provisions
Allowance for program product warranty	185	(185)	–	–		
Provision for loss on business withdrawal	19	(19)	–	–		
Provision for surcharge	90	(90)	–	–		
	–	1,083	–	1,083	H	Other financial liabilities
Other	603	13,984	–	14,587		Other current liabilities
Total current liabilities	54,107	–	5,759	59,866		Total current liabilities
Non-current liabilities						Non-current liabilities
Lease obligations	1,363	–	26,725	28,089	E	Lease liabilities
	–	786	–	786	H	Other financial liabilities
Provision for directors' retirement benefits	149	(149)	–	–		
Provision for loss on business withdrawal	173	2,907	–	3,081		Provisions
Retirement benefit liability	10,956	–	–	10,956		Retirement benefit liability
Deferred tax liabilities	11,007	–	(353)	10,654	A, C	Deferred tax liabilities
Other	5,345	(3,545)	1,236	3,036	C	Other non-current liabilities
Total non-current liabilities	28,996	–	27,608	56,604		Total non-current liabilities
Total liabilities	83,103	–	33,368	116,471		Total liabilities
Net assets						
Shareholders' equity						Equity
Share capital	12,952	–	–	12,952		Share capital
Capital surplus	9,950	–	–	9,950		Capital surplus
Retained earnings	120,435	–	(813)	119,621	F	Retained earnings
Treasury shares	(2)	–	–	(2)		Treasury shares
Accumulated other comprehensive income	–	–	–	–		
Valuation difference on available-for-sale securities	38,310	15	522	38,847	A, D	Other components of equity
Foreign currency translation adjustment	15	(15)	–	–		
Non-controlling interests	6,313	–	(22)	6,290	C, D	Non-controlling interests
Total net assets	187,975	–	(313)	187,661		Total equity
Total liabilities and net assets	271,078	–	33,054	304,133		Total liabilities and equity

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Reconciliation of equity as of June 30, 2021

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	5,773	79,699	–	85,473	I	Cash and cash equivalents
Deposits paid	80,076	(80,076)	–	–		
Notes and accounts receivable - trade	36,680	575	–	37,256		Trade and other receivables
Contract assets	15,336	–	–	15,336		Contract assets
Securities	2,000	377	4	2,381	H, I	Other financial assets
Work in process	24,148	37	–	24,185	G	Inventories
Raw materials and supplies	37	(37)	–	–		
Other	2,923	(597)	(346)	1,979	E	Other current assets
Allowance for doubtful accounts	(22)	22	–	–		
Total current assets	166,954	–	(341)	166,612		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	22,027	(1,352)	–	20,674		Property, plant and equipment
	–	1,864	31,300	33,164	E	Right-of-use assets
	–	2,807	116	2,923	B	Goodwill
Intangible assets	5,076	(3,319)	–	1,757		Intangible assets
	–	115	–	115		Investments accounted for using equity method
Investment securities	65,916	6,338	826	73,080	A, H	Other financial assets
	–	4,083	(195)	3,888	C, E	Deferred tax assets
Other	10,759	(10,586)	–	172		Other non-current assets
Allowance for doubtful accounts	(48)	48	–	–		
Total non-current assets	103,731	–	32,047	135,778		Total non-current assets
Total assets	270,685	–	31,705	302,390		Total assets

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(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	13,392	5,083	–	18,475		Trade and other payables
	–	898	5,760	6,659	E	Lease liabilities
Income taxes payable	2,752	–	–	2,752		Income taxes payable
Contract liabilities	18,329	–	–	18,329		Contract liabilities
Provision for bonuses	4,808	(4,808)	–	–		
Other provisions	1,280	–	–	1,280		Provisions
	–	3,389	–	3,389	H	Other financial liabilities
Other	11,044	(4,562)	–	6,481		Other current liabilities
Total current liabilities	51,607	–	5,760	57,368		Total current liabilities
Non-current liabilities						Non-current liabilities
	–	1,148	25,199	26,347	E	Lease liabilities
	–	330	–	330	H	Other financial liabilities
Provision for directors′ retirement benefits	82	(82)	–	–		
Asset retirement obligations	2,909	162	–	3,071		Provisions
Retirement benefit liability	11,146	–	–	11,146		Retirement benefit liability
Other provisions	162	(162)	–	–		
	–	11,106	(309)	10,797	A, C, E	Deferred tax liabilities
Other	14,235	(12,502)	1,236	2,969	C	Other non-current liabilities
Total non-current liabilities	28,536	–	26,126	54,662		Total non-current liabilities
Total liabilities	80,144	–	31,886	112,031		Total liabilities
Net assets						
Shareholders' equity						Equity
Share capital	12,952	–	–	12,952		Share capital
Capital surplus	9,950	–	–	9,950		Capital surplus
Retained earnings	122,552	–	(696)	121,856	F	Retained earnings
Treasury shares	(2)	–	–	(2)		Treasury shares
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities	38,754	153	538	39,446	A, D	Other components of equity
Foreign currency translation adjustment	153	(153)	–	–		
Non-controlling interests	6,179	–	(22)	6,156	C, D	Non-controlling interests
Total net assets	190,541	–	(181)	190,359		Total equity
Total liabilities and net assets	270,685	–	31,705	302,390		Total liabilities and equity

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Reconciliation of equity as of March 31, 2022

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	5,865	89,840	–	95,706	I	Cash and cash equivalents
Deposits paid	90,216	(90,216)	–	–		
Notes receivable - trade	266	55,637	–	55,904		Trade and other receivables
Accounts receivable - trade	55,100	(55,100)	–	–		
Contract assets	11,592	–	–	11,592		Contract assets
Securities	2,000	376	3	2,380	H, I	Other financial assets
Work in process	19,488	159	–	19,648	G	Inventories
Raw materials and supplies	159	(159)	–	–		
Other	3,115	(657)	(346)	2,112	E	Other current assets
Allowance for doubtful accounts	(120)	120	–	–		
Total current assets	187,686	–	(342)	187,343		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	23,747	(2,711)	–	21,035		Property, plant and equipment
	–	4,382	26,893	31,276	E	Right-of-use assets
	–	2,458	465	2,923	B	Goodwill
Intangible assets	6,900	(4,129)	–	2,771		Intangible assets
	–	163	–	163		Investments accounted for using equity method
Investment securities	67,824	6,167	2,155	76,147	A, H	Other financial assets
Deferred tax assets	4,091	–	(198)	3,892	C, E	Deferred tax assets
Guarantee deposits	6,223	(6,223)	–	–		
Other	366	(156)	–	210		Other non-current assets
Allowance for doubtful accounts	(48)	48	–	–		
Total non-current assets	109,103	–	29,316	138,420		Total non-current assets
Total assets	296,790	–	28,973	325,764		Total assets

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(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable - trade	17,828	6,279	–	24,108		Trade and other payables
Lease obligations	2,034	–	5,592	7,626	E	Lease liabilities
Accounts payable - other	11,695	(11,695)	–	–		
Income taxes payable	6,476	–	–	6,476		Income taxes payable
Contract liabilities	12,311	–	–	12,311		Contract liabilities
Provision for bonuses	10,301	(10,301)	–	–		
Provision for loss on order received	521	369	–	890		Provisions
Allowance for program product warranty	183	(183)	–	–		
Provision for loss on business withdrawal	149	(149)	–	–		
	–	1,074	–	1,074	H	Other financial liabilities
Other	662	14,606	–	15,268		Other current liabilities
Total current liabilities	62,165	–	5,592	67,757		Total current liabilities
Non-current liabilities						Non-current liabilities
Lease obligations	2,918	–	20,975	23,894	E	Lease liabilities
	–	321	–	321	H	Other financial liabilities
Provision for directors′ retirement benefits	97	(97)	–	–		
Provision for loss on business withdrawal	259	(259)	–	–		
Asset retirement obligations	2,931	259	–	3,190		Provisions
Retirement benefit liability	11,205	–	–	11,205		Retirement benefit liability
Deferred tax liabilities	10,534	–	115	10,650	A, C, E	Deferred tax liabilities
Other	3,247	(223)	1,149	4,174	C	Other non-current liabilities
Total non-current liabilities	31,195	–	22,241	53,436		Total non-current liabilities
Total liabilities	93,360	–	27,833	121,194		Total liabilities
Net assets						
Shareholders' equity						Equity
Share capital	12,952	–	–	12,952		Share capital
Capital surplus	9,950	–	–	9,950		Capital surplus
Retained earnings	135,150	–	(306)	134,844	F	Retained earnings
Treasury shares	(2)	–	–	(2)		Treasury shares
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities	38,427	208	1,449	40,086	A, D	Other components of equity
Foreign currency translation adjustment	208	(208)	–	–		
Non-controlling interests	6,741	–	(3)	6,738	C, D	Non-controlling interests
Total net assets	203,429	–	1,140	204,569		Total equity
Total liabilities and net assets	296,790	–	28,973	325,764		Total liabilities and equity

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Reconciliation of profit or loss and comprehensive income for the three months ended June 30, 2021

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net sales	65,519	–	–	65,519		Revenue
Cost of sales	50,684	–	(5)	50,679	C, E	Cost of sales
Gross profit	14,834	–	5	14,840		Gross profit
Selling, general and administrative expenses	7,692	–	(115)	7,577	B, C	Selling, general and administrative expenses
	–	7	–	7		Share of loss of investments accounted for using equity method
	–	129	–	129	J	Other income
	–	20	–	20	J	Other expenses
Operating profit	7,142	101	120	7,363		Operating profit
Non-operating income	457	(129)	–	327	J	Finance income
Non-operating expenses	76	(28)	24	72	E, J	Finance costs
Profit before income taxes	7,522	–	95	7,618		Profit before tax
Income taxes	2,810	–	(20)	2,789		Income tax expense
Profit	4,711	–	116	4,828		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
	–	–	(0)	(0)	C	Remeasurement of net defined benefit liability (asset)
Valuation difference on available-for-sale securities	443	–	16	459	A	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
						Items that may be reclassified to profit or loss
Foreign currency translation adjustment	144	–	–	144		Exchange differences on translation of foreign operations
Total other comprehensive income	588	–	15	603		Total other comprehensive income, net of tax effect
Comprehensive income	5,299	–	132	5,432		Comprehensive income

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Reconciliation of profit or loss and comprehensive income for the fiscal year ended March 31, 2022

(Millions of yen)

Accounts under Japanese GAAP	Japanese GAAP	Reclassification	Difference in recognition and measurement	IFRS	Notes	Accounts under IFRS
Net sales	270,332	–	–	270,332		Revenue
Cost of sales	210,011	–	(127)	209,883	C, E	Cost of sales
Gross profit	60,321	–	127	60,448		Gross profit
Selling, general and administrative expenses	30,505	–	(491)	30,014	B, C	Selling, general and administrative expenses
	–	39	–	39		Share of profit of investments accounted for using equity method
	–	584	–	584	J	Other income
	–	1,170	–	1,170	J	Other expenses
Operating profit	29,815	(547)	618	29,886		Operating profit
Non-operating income	1,627	(623)	1	1,004	J	Finance income
Non-operating expenses	631	(468)	41	204	E, J	Finance costs
Extraordinary losses	702	(702)	–	–		
Profit before income taxes	30,109	–	578	30,687		Profit before tax
Income taxes - current	9,980	(484)	17	9,512		Income tax expense
Income taxes - deferred	(484)	484	–	–		
Profit	20,613	–	561	21,175		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
	–	–	(35)	(35)	C	Remeasurement of net defined benefit liability (asset)
Valuation difference on available-for-sale securities	116	–	927	1,044	A	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income
						Items that may be reclassified to profit or loss
Foreign currency translation adjustment	203	–	–	203		Exchange differences on translation of foreign operations
Total other comprehensive income	320	–	892	1,213		Total other comprehensive income, net of tax effect
Comprehensive income	20,934	–	1,454	22,388		Comprehensive income

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Notes on reconciliation

A. Non-marketable equity instruments

Under Japanese GAAP, non-marketable equity instruments were carried at cost. Under IFRS, they are designated as equity instruments measured at fair value through other comprehensive income in accordance with IFRS 9 *Financial Instruments*, and accordingly, equity instruments are measured at fair value, regardless of whether they are marketable or not, with the changes in fair value recognized through other comprehensive income.

B. Goodwill

Under Japanese GAAP, goodwill was amortized on a straight-line basis over a reasonably estimated period during which its effect is expected to continue. Under IFRS, goodwill arising from business combinations is not amortized but tested for impairment each fiscal year.

C. Employee benefits

Under Japanese GAAP, service cost and interest expense for retirement benefits under defined benefit plans were recognized in profit or loss. Actuarial gains and losses and past service cost arising from the plans were also recognized in profit or loss in the fiscal year in which they were incurred.

Under IFRS, on the other hand, current service cost and past service cost for retirement benefits under defined benefit plans are recognized in profit or loss, and interest expense is recognized in profit or loss at an amount calculated by multiplying the net defined benefit liability (asset) by the discount rate. Remeasurement of the net defined benefit liability (asset) is recognized in other comprehensive income, and directly reclassified to retained earnings from other components of equity when incurred without being recognized through profit or loss. Remeasurement consists of actuarial gains and losses on defined benefit obligations.

In addition, other long-term employee benefits, which were not recognized under Japanese GAAP, are recognized as liabilities under IFRS.

D. Exchange differences on translation of foreign operations

Upon the adoption of IFRS, by applying an exemption for cumulative exchange differences on translation of foreign operations as provided in IFRS 1, the Group has elected to deem the cumulative exchange differences on translation of foreign operations to be zero as of the transition date.

E. Lease liabilities and right-of-use assets

Under Japanese GAAP, leases as a lessee were classified as either finance leases or operating leases, and operating leases were accounted for in a similar manner to ordinary rental transactions. Under IFRS, leases as a lessee are not classified as finance leases or operating leases, and right-of-use assets and lease liabilities are recognized for lease transactions.

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F. Reconciliation of retained earnings

The impact of the aforementioned reconciliations on retained earnings is as follows (figures in parentheses represent loss).

(Millions of yen)

	As of April 1, 2021 (Transition date)	As of June 30, 2021	As of March 31, 2022
Goodwill (see Note B)	–	116	465
Employee benefits (see Note C)	(829)	(829)	(788)
Exchange differences on translation of foreign operations (see Note D)	11	11	11
Lease liabilities and right-of-use assets (see Note E)	–	(3)	(13)
Other	4	7	19
Reconciliation of retained earnings	(813)	(696)	(306)

Reclassification in the consolidated statement of financial position

In accordance with IFRS, mainly the following items have been reclassified:

G. Work in process and raw materials and supplies, which were presented separately under Japanese GAAP, are presented collectively as “Inventories.”

H. Other financial assets and other financial liabilities are presented separately.

I. “Deposits paid,” which were presented separately under Japanese GAAP, are included in “Cash and cash equivalents” under IFRS. In addition, time deposits with a maturity of over three months are included in “Other financial assets” as current assets.

Reclassification in the consolidated statement of profit or loss

In accordance with IFRS, mainly the following items have been reclassified:

J. Income and expenses, which were presented as non-operating income, non-operating expenses, extraordinary income, and extraordinary losses under Japanese GAAP, are included in “Finance income” and “Finance costs” for finance-related items, and in “Other income” and “Other expenses” for the other items under IFRS.

Reconciliation of cash flows for the three months ended June 30, 2021 and the fiscal year ended March 31, 2022

Under Japanese GAAP, lease payments for operating leases were accounted for in cash flows from operating activities. Under IFRS, where lease liabilities are required to be recognized for all leases in principle, repayments of lease liabilities are accounted for in cash flows from financing activities.

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