

* Notes

- (1) Important changes in subsidiaries during this quarter
(changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable
New: — (company name)
Exception: — (company name)
- (2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to “2. Consolidated Financial Statements and Key Notes (4) Notes to consolidated financial statements” on page 11 of the accompanying materials.
- (3) Changes in accounting principles and changes or restatement of accounting estimates
(i) Changes in accounting principles due to amendment of accounting standards, etc.: Yes
(ii) Changes in accounting principles other than (i): Not applicable
(iii) Changes in accounting estimates: Not applicable
(iv) Restatement: Not applicable
(Note) For details, please refer to “2. Consolidated Financial Statements and Key Notes (4) Notes to consolidated financial statements” on page 11 of the accompanying materials.

(4) Number of outstanding shares (common shares)

- 1) Number of shares outstanding at the end of period (including treasury shares):
- 2) Number of treasury shares at the end of period:
- 3) Average number of shares during the period (quarterly consolidated cumulative period):

| | | | |
|-------|-------------------|-------------------|-------------------|
| 3/22: | 33,700,000 shares | Year ended 12/21: | 33,700,000 shares |
| 3/22: | 2,344,173 shares | Year ended 12/21: | 2,346,673 shares |
| 3/22: | 31,355,465 shares | 3/21: | 31,293,721 shares |

* Summaries of quarterly consolidated financial results are not subject to a quarterly review by a certified public accountant or an audit corporation.

* Cautionary statement with respect to forward-looking statements

The above forecast has been prepared based on data available on the announcement date. Since the data contains uncertainties, actual results may differ materially from the projections above due to changes in business performance and other factors.

For assumptions concerning financial forecasts, please refer to 1. Qualitative Information on Consolidated Results for the First Quarter Ended March 31, 2022, (3) Information on the future outlook, including forecast for consolidated business results on page 4 of the accompanying materials.

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1. Qualitative Information on Consolidated Results for the First Three Months Ended March 31, 2022

(1) Details of consolidated results

During the first quarter of the consolidated fiscal year under review (from January 1, 2022 to March 31, 2022), the Japanese economy continued to recover, primarily in the manufacturing industry, although it remained susceptible to the impact of COVID-19 and the supply chain disruptions linked to semiconductor shortages. Meanwhile, there are new concerns about future economic activities, such as the weakening of the yen on foreign exchange markets and the escalating energy cost caused by the geopolitical issue in Ukraine.

In the information services industry, demand for system investment has remained strong because companies remain highly motivated to apply digital technologies to their operational and business reforms, such as digital transformation (DX) aimed at improving productivity and business efficiency and reforming business models, although they are required to assess the impact of rising global prices, the prolonged supply chain disruption, and other events.

In this business environment, the FUJISOFT GROUP worked to achieve sustainable growth and improve its added value by setting “Lead DX in the aspects of both IT and OT with digital technologies and contribute to value improvement and innovations by customers and society” as its three-year management policy based on the Medium-Term Management Plan (2022 to 2024) that was announced on February 10, 2022. Further, on February 24, 2022, the Group also announced its DX Strategy, under which it makes comprehensive use of digital technologies to improve its competitiveness and uses the achievements from this to help customers achieve their own digitalization and increase their competitiveness.

In operation system development in the System Construction Segment, demand remained strong mainly in the domain of system infrastructure construction realizing cloud environment and virtualization, which are essential for customers’ DX, by utilizing technologies of global vendors as well, the reconstruction of backbone systems for reinforcing business foundation, and the development of service systems for the provision of new services, among other domains. For the financial service industry, the Company has engaged in aggressive sales activities in response to the demand for strategic IT investments for the promotion of DX, including efforts to increase management efficiency and to create new insurance businesses. At the same time, the Company has been providing integrated solutions, ranging from development to maintenance of existing systems, in an effort to expand the business.

In embedded/control system development, capital expenditures in the machine control field gathered momentum in Europe, United States, and Southeast Asia in addition to China, where the expenditures had been strong. Amid this trend, the Group actively responded to the demand for factory automation (FA), including machine tools and robots, and ever-increasing demand for capital expenditures related to semiconductor manufacturing facilities. In the automotive sector, demand for software development is recovering, reflecting a significant recovery in production activities, and onboard system development, such as the development of car navigation systems, other onboard equipment, and advanced driver-assistance systems (ADAS), in which the Group has an extensive track record, remained strong. The Group has also continued aggressive sales activities mainly in the market of electrification, which is accelerating with the goal of achieving global carbon neutrality.

In the products and services segment, sales of mobile routers and equipment expanded rapidly in the previous year, driven by rapid growth in demand for ICT equipment backed by the GIGA School Program. The demand has now subsided and remained stable. On the other hand, the Group has been developing and selling new products, viewing the social changes associated with the significant lifestyle changes as an opportunity. On April 1, 2022, the Group started providing FAMcampus, a virtual classroom space that was developed based on the results of joint demonstrations with Gakken Juku Holdings Co., Ltd. and Gakken Method Co., Ltd. With its technological capabilities and development capabilities in the ICT field, the Group will accelerate DX in the field of education, aiming to strengthen and expand its businesses.

As a result of these initiatives, in the first quarter under review, net sales stood at 68,874 million yen, up 4.5% year on year, thanks to the strong performance of the System Integration business. While SG&A expenses increased 4.1% year on year, to 10,058 million yen, the sales growth resulted in operating income of 5,089 million yen, up 10.7% year on year, ordinary income of 5,446 million yen, up 5.5% year on year, and profit attributable to owners of parent of 3,337 million yen, up 14.8% year on year.

Results by business segment were as follows:

(i) SI (system integration) business

In the SI business, both sales and income from embedded/control software increased, mainly reflecting the steady performance of machine control systems and automotive systems. In operation software, sales increased because of the bullish results for the financial sector and in the construction of system infrastructure but operating income decreased due in part to unprofitable projects. In the products and services segment, both sales and income decreased because there was a major PC sales project related to the GIGA School Program in the previous year. In the outsourcing business, sales increased, reflecting an increase in maintenance service projects, but operating income declined due to temporary spending associated with the data center

transfer.

As a result, net sales stood at 64,926 million yen, up 3.3% year on year. Operating income amounted to 4,612 million yen, up 4.1%.

* The following table shows a breakdown of net sales and operating income in the SI business.

| (Million yen) | | | | |
|---------------------------|-----------|----------------|------------------|----------------|
| | Net sales | YoY change (%) | Operating income | YoY change (%) |
| SI business total | 64,926 | 103.3 | 4,612 | 104.1 |
| System Construction | 40,522 | 113.9 | 3,041 | 108.4 |
| Embedded/Control Software | 18,235 | 110.8 | 1,768 | 127.4 |
| Operation Software | 22,286 | 116.5 | 1,272 | 89.8 |
| Products and Services | 24,404 | 89.5 | 1,571 | 96.5 |
| Products and Services | 20,732 | 86.9 | 1,309 | 97.7 |
| Outsourcing | 3,671 | 108.2 | 262 | 91.2 |

(Note) Operating income includes the elimination of intersegment transactions of 0 million yen.

(ii) Facility business

In the facility business, net sales stood at 706 million yen, up 11.8% year on year. Operating income amounted to 170 million yen, up 22.1%.

(iii) Other businesses

In other businesses, net sales stood at 3,240 million yen, up 32.2% year on year, and operating income amounted to 307 million yen, up 1,043.8% year on year, mainly reflecting an increase in one-time projects related to the COVID-19 measures of government offices and local governments in BPO services and call center services.

(2) Details of financial position

Total assets

Total assets stood at 232,192 million yen at the end of the consolidated first quarter under review, up 3,276 million yen from the end of the preceding consolidated fiscal year. Current assets were 112,307 million yen (up 1,178 million yen from the end of the previous fiscal year), and non-current assets were 119,885 million yen (up 2,098 million yen).

The main factors for the change in current assets were a decrease in cash and deposits by 5,406 million yen from the end of the previous fiscal year, to 34,945 million yen, an increase in notes and accounts receivable-trade and contract assets by 3,182 million yen, to 60,535 million yen, and an increase in short-term investment securities by 2,000 million yen, to 7,000 million yen.

The main factors of the change in non-current assets include an increase in buildings and structures by 1,607 million yen from the end of the previous fiscal year, to 28,773 million yen, and an increase in deferred tax assets by 1,023 million yen, to 3,991 million yen.

Liabilities

At the end of the consolidated first quarter under review, total liabilities amounted to 87,836 million yen, up 1,890 million yen from the end of the previous fiscal year. Current liabilities were 70,365 million yen (up 2,347 million yen from the end of the previous fiscal year), and non-current liabilities were 17,471 million yen (down 457 million yen).

The main factors of the change in current liabilities were short-term loans payable and the current portion of long-term loans payable, which amounted to 21,373 million yen (up 1,910 million yen from the end of the previous fiscal year).

The main factors of the change in non-current liabilities include a decrease of 179 million yen in long-term loans payable from the end of the previous fiscal year, to 9,186 million yen, and a decrease of 132 million yen in retirement benefit liability from the end of the previous fiscal year, to 5,650 million yen.

Net assets

Net assets rose 1,386 million yen from the end of the preceding fiscal year, to 144,355 million yen at the end of the consolidated first quarter under review. As a result, the equity ratio increased to 54.7% from 54.6% at the end of the previous fiscal year.

Cash flows

Consolidated cash and cash equivalents (“cash”) at the end of the cumulative first quarter of the fiscal year under review were 37,021 million yen, a decrease of 3,854 million yen from the end of the previous fiscal year.

Cash flows in the cumulative first quarter of the fiscal year under review were as follows.

(Cash flows from operating activities)

Net cash used in operating activities in the cumulative first quarter of the fiscal year under review came to 1,758 million yen. This was mainly associated with an increase in money received, reflecting the increase in sales and income, as well as the payment of consumption tax and income taxes.

(Cash flows from investment activities)

Net cash used in investing activities in the cumulative first quarter of the fiscal year under review came to 2,637 million yen. This was primarily due to expenses for investment in non-current assets, including office construction and the Company’s products.

(Cash flows from financing activities)

Net cash provided by financing activities in the cumulative first quarter of the fiscal year under review was 174 million yen. This was mainly due to dividend payments and funding of working capital.

(3) Information on the future outlook, including forecast for consolidated business results

The first-half and full-year results forecasts remain unchanged from those announced in the financial results for the fiscal year ended December 31, 2021 announced on February 10, 2022.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheet

(Million yen)

| | FY2021 (As of December 31, 2021) | Q1 FY2022 (As of March 31, 2022) |
|--|-------------------------------------|-------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 40,351 | 34,945 |
| Notes and accounts receivable - trade | 57,352 | - |
| Notes and accounts receivable - trade, and contract assets | - | 60,535 |
| Securities | 5,000 | 7,000 |
| Merchandise | 1,378 | 1,139 |
| Work in process | 3,034 | 3,095 |
| Raw materials and supplies | 37 | 44 |
| Other | 4,177 | 5,745 |
| Allowance for doubtful accounts | -202 | -198 |
| Total current assets | 111,128 | 112,307 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 58,111 | 60,071 |
| Accumulated depreciation | -30,945 | -31,297 |
| Buildings and structures, net | 27,166 | 28,773 |
| Land | 53,173 | 53,173 |
| Construction in progress | 7,030 | 7,425 |
| Other | 14,274 | 14,570 |
| Accumulated depreciation | -11,300 | -11,595 |
| Other, net | 2,973 | 2,974 |
| Total property, plant and equipment | 90,344 | 92,347 |
| Intangible assets | | |
| Goodwill | 385 | 370 |
| Software | 4,115 | 3,975 |
| Other | 47 | 45 |
| Total intangible assets | 4,547 | 4,391 |
| Investments and other assets | | |
| Investment securities | 8,355 | 7,711 |
| Net defined benefit asset | 6,001 | 6,182 |
| Deferred tax assets | 2,968 | 3,991 |
| Other | 5,591 | 5,283 |
| Allowance for doubtful accounts | -21 | -22 |
| Total investments and other assets | 22,894 | 23,146 |
| Total non-current assets | 117,786 | 119,885 |
| Total assets | 228,915 | 232,192 |

(Million yen)

| | FY2021 (As of December 31, 2021) | Q1 FY2022 (As of March 31, 2022) |
|---|-------------------------------------|-------------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable – trade | 12,947 | 14,353 |
| Short-term loans payable | 4,738 | 5,150 |
| Current portion of long-term loans payable | 14,724 | 16,222 |
| Accrued expenses | 5,137 | 4,570 |
| Income taxes payable | 5,247 | 2,211 |
| Provision for bonuses | 6,834 | 8,253 |
| Provision for directors' bonuses | 279 | 191 |
| Provision for loss on construction contracts | 277 | 229 |
| Provision for loss on withdrawal from business | 52 | 43 |
| Provision for subsidy repayment | 443 | 464 |
| Other | 17,336 | 18,673 |
| Total current liabilities | 68,018 | 70,365 |
| Non-current liabilities | | |
| Long-term loans payable | 9,366 | 9,186 |
| Provision for directors' retirement benefits | 542 | 310 |
| Net defined benefit liability | 5,782 | 5,650 |
| Other | 2,237 | 2,323 |
| Total non-current liabilities | 17,928 | 17,471 |
| Total liabilities | 85,946 | 87,836 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 26,200 | 26,200 |
| Capital surplus | 28,979 | 28,950 |
| Retained earnings | 82,645 | 84,676 |
| Treasury shares | -4,748 | -4,743 |
| Total shareholders' equity | 133,076 | 135,083 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,709 | 1,254 |
| Deferred gains or losses on hedges | -0 | -0 |
| Revaluation reserve for land | -8,228 | -8,228 |
| Foreign currency translation adjustment | 246 | 438 |
| Remeasurements of defined benefit plans | -1,756 | -1,653 |
| Total accumulated other comprehensive income | -8,029 | -8,188 |
| Subscription rights to shares | 620 | 618 |
| Non-controlling interests | 17,300 | 16,842 |
| Total net assets | 142,968 | 144,355 |
| Total liabilities and net assets | 228,915 | 232,192 |

(2) Consolidated statements of income and consolidated statements of comprehensive income
 Consolidated statements of income
 Consolidated first quarter results

| | (Million yen) | |
|---|--|--|
| | Q1 FY2021 (From January 1, 2021 to March 31, 2021) | Q1 FY2022 (From January 1, 2022 to March 31, 2022) |
| Net sales | 65,928 | 68,874 |
| Cost of sales | 51,665 | 53,725 |
| Gross profit | 14,262 | 15,148 |
| SG&A expenses | 9,664 | 10,058 |
| Operating income | 4,598 | 5,089 |
| Non-operating income | | |
| Interest income | 20 | 22 |
| Share of profit of entities accounted for using equity method | 131 | 12 |
| Foreign exchange gains | 372 | 300 |
| Other | 74 | 39 |
| Total non-operating income | 599 | 375 |
| Non-operating expenses | | |
| Interest expenses | 17 | 11 |
| Loss on retirement of non-current assets | 11 | 0 |
| Other | 6 | 5 |
| Total non-operating expenses | 35 | 18 |
| Ordinary income | 5,162 | 5,446 |
| Extraordinary income | | |
| Gain on sales of investment securities | 7 | - |
| Total extraordinary income | 7 | - |
| Extraordinary losses | | |
| Impairment loss | - | 28 |
| Expenses for measures against infectious diseases | 26 | 35 |
| Other | - | 6 |
| Total extraordinary losses | 26 | 69 |
| Income before income taxes | 5,143 | 5,376 |
| Income taxes-current | 1,800 | 1,846 |
| Income taxes-deferred | -185 | -419 |
| Total income taxes | 1,614 | 1,427 |
| Net income | 3,529 | 3,949 |
| Profit attributable to non-controlling interests | 621 | 612 |
| Profit attributable to owners of parent | 2,908 | 3,337 |

Consolidated statements of comprehensive income
 Consolidated first quarter results

| | (Million yen) | |
|--|--|--|
| | Q1 FY2021 (From January 1, 2021 to March 31, 2021) | Q1 FY2022 (From January 1, 2022 to March 31, 2022) |
| Net income | 3,529 | 3,949 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 573 | -457 |
| Deferred gains or losses on hedges | 0 | - |
| Foreign currency translation adjustment | 256 | 304 |
| Remeasurements of defined benefit plans, net of tax | 91 | 148 |
| Share of other comprehensive income of entities accounted for using equity method | 88 | 5 |
| Total other comprehensive income | 1,010 | 1 |
| Comprehensive income | 4,540 | 3,950 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent | 3,800 | 3,177 |
| Comprehensive income attributable to non-controlling interests | 739 | 773 |

(3) Consolidated cash flow statement

(Million yen)

| | Q1 FY2021 (From January 1, 2021 to March 31, 2021) | Q1 FY2022 (From January 1, 2022 to March 31, 2022) |
|--|--|--|
| Cash flows from operating activities | | |
| Income before income taxes | 5,143 | 5,376 |
| Depreciation | 1,593 | 1,330 |
| Impairment loss | — | 28 |
| Expenses for measures against infectious diseases | 26 | 35 |
| Amortization of goodwill | 14 | 14 |
| Increase (decrease) in provision for loss on construction contracts | -73 | -56 |
| Increase (decrease) in net defined benefit liability | 119 | -100 |
| Decrease (increase) in net defined benefit asset | -110 | -107 |
| Equity in (earnings) losses of affiliates | -131 | -12 |
| Interest expenses | 17 | 11 |
| Foreign exchange losses (gains) | -441 | -307 |
| Loss (gain) on sales of investment securities | -7 | — |
| Decrease (increase) in notes and accounts receivable - trade | -5,559 | — |
| Decrease (increase) in notes and accounts receivable - trade and contract assets | — | -4,354 |
| Decrease (increase) in inventories | 838 | 179 |
| Increase (decrease) in notes and accounts payable - trade | 6,611 | 1,635 |
| Increase (decrease) in accounts payable - labor cost | 1,513 | 1,553 |
| Increase (decrease) in accrued consumption taxes | -2,301 | -3,110 |
| Increase (decrease) in accounts payable - other | -198 | 1,902 |
| Decrease (increase) in long-term prepaid expenses | 248 | 308 |
| Other | -1,491 | -1,672 |
| Subtotal | 5,811 | 2,654 |
| Interest and dividends income received | 21 | 23 |
| Interest expenses paid | -20 | -12 |
| Income taxes paid | -2,562 | -4,387 |
| Payments for loss on withdrawal from business | — | -9 |
| Expenses for measures against infectious diseases paid | -4 | -27 |
| Net cash provided by (used in) operating activities | 3,245 | -1,758 |
| Cash flows from investing activities | | |
| Payments into time deposits | -3,637 | -725 |
| Proceeds from withdrawal of time deposits | 4,910 | 541 |
| Purchase of property, plant and equipment | -612 | -1,805 |
| Purchase of intangible assets | -770 | -646 |
| Purchase of investment securities | -0 | -0 |
| Proceeds from sales of investment securities | 7 | — |
| Other | 69 | -1 |
| Net cash provided by (used in) investing activities | -32 | -2,637 |

(Million yen)

| | Q1 FY2021 (From January 1, 2021 to March 31, 2021) | Q1 FY2022 (From January 1, 2022 to March 31, 2022) |
|--|--|--|
| Cash flows from financing activities | | |
| Purchase of treasury shares of subsidiaries | — | -236 |
| Increase in short-term loans payable | 4,900 | 4,986 |
| Decrease in short-term loans payable | -5,120 | -4,576 |
| Proceeds from long-term loans payable | 3,500 | 5,000 |
| Repayment of long-term loans payable | -407 | -3,681 |
| Purchase of treasury shares | -0 | — |
| Repayments to non-controlling shareholders | — | -121 |
| Cash dividends paid | -661 | -749 |
| Dividends paid to non-controlling interests | -391 | -449 |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | -0 | -3 |
| Repayments of lease obligations | -12 | -3 |
| Other | — | 11 |
| Net cash provided by (used in) financing activities | 1,807 | 174 |
| Effect of exchange rate change on cash and cash equivalents | 327 | 366 |
| Net increase (decrease) in cash and cash equivalents | 5,347 | -3,854 |
| Cash and cash equivalents at beginning of period | 37,450 | 40,876 |
| Cash and cash equivalents at end of period | 42,798 | 37,021 |

(4) Notes to consolidated financial statements

(Note on going concern assumptions)

Not applicable.

(Note when there is a considerable change in the amount of shareholders' equity)

Not applicable.

(Important changes in subsidiaries during this quarter)

Not applicable.

(Application of specific accounting treatment to the preparation of quarterly consolidated financial statements)

(Calculation of tax expense)

Certain consolidated subsidiaries make a reasonable estimate of the effective tax rate after the application of tax effect accounting to income before income taxes for the current fiscal year and multiply quarterly income before income taxes by the estimated effective tax rate.

(Changes in accounting principles)

(Adoption of the Accounting Standard for Revenue Recognition and Other Regulations)

The Company started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Revenue Recognition Accounting Standard") and other regulations at the beginning of the first three months of the fiscal year under review. Accordingly, it recognized revenue in the amount expected to be received in exchange for promised goods and services at points where control over such goods or services is transferred to customers.

Major changes attributable to the application of the Revenue Recognition Accounting Standard, etc. are as follows.

(1) Revenue recognition for principal and agent transactions

For some transactions in the SI business, revenue was previously recognized based on the total amount of consideration. However, for transactions in which the Group acts as an agent in the provision of goods or services for customers, revenue is now recognized in net value.

(2) Performance obligations satisfied over time

- Regarding contracted software development, the Group previously applied the percentage-of-completion method to contracts in which the reliability of results for progressed portions was recognized (with the progress of work estimated based on cost-to-cost method), while applying the completed-contract method to others. In the consolidated first quarter under review, this practice was replaced with a method with which, where the control over goods or services is transferred to the customer over a specific period, sales are posted over a specific period according to progress in the satisfaction of the performance obligation to transfer the goods or services to the customer, except in cases where the period from the contract start date to the expected time of complete fulfillment of the performance obligation under the contract is extremely short.
- Concerning services provided under quasi-mandate contracts without the obligation to deliver a deliverable, the Group previously posted sales when service provision was completed. In the consolidated first quarter under review, this practice was replaced with a method with which, where the control over goods or services is transferred to the customer over a specific period, sales are posted over a specific period according to progress in the satisfaction of the performance obligation to transfer the goods or services to the customer, except in cases where the period from the contract start date to the expected time of complete fulfillment of the performance obligation under the contract is extremely short.
- Regarding software maintenance services provided by some consolidated subsidiaries, revenue was previously recognized primarily at the contract start time. In the consolidated first quarter under review, this method was replaced with one under which revenue is recognized over the contract period.

(3) Allocation of transaction price

Some consolidated subsidiaries have switched to a method with which, in a single contract involving licensing and maintenance service, a performance obligation is identified for the licensing and maintenance service, respectively, and the transaction price is allocated to each performance obligation proportionately based on the standalone selling price determined for each.

The Revenue Recognition Accounting Standard is applied according to the provisional measures stipulated in the proviso in Paragraph 84 of the standard. With respect to the application of a new accounting policy, it is applied to the balance of retained surplus at the beginning of the first quarter of the fiscal year under review. This balance of retained surplus is obtained through

calculation using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the first quarter, either by adding it to or deducting it from the retained surplus.

As a result, net sales for the first three months of the fiscal year under review increased by 565 million yen, cost of sales increased by 276 million yen, operating profit, ordinary profit and profit before income taxes all increased by 289 million yen, respectively. The balance of retained earnings at the beginning of the period under review decreased 493 million yen, and non-controlling interests fell 413 million yen.

With the application of the Revenue Recognition Accounting Standard, notes and accounts receivable - trade presented in current assets in the consolidated balance sheets for the previous fiscal year is included in notes and accounts receivable - trade, and contract assets in the consolidated balance sheets from the first quarter under review. Pursuant to the transitional provisions in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company did not reclassify balance sheet amounts for the previous fiscal year according to a new presentation. Moreover, in accordance with the provisional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information that decomposes revenue from contracts with customers for the first three months of the previous fiscal year is not stated.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company began applying the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. and the implementation guidance on the Accounting Standard for Fair Value Measurement from the first quarter under review. Accordingly, the Company will apply the new accounting policies prescribed in the Accounting Standard for Fair Value Measurement, etc. in the future in accordance with transitional measures stipulated in Paragraph 19 of the standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Abolition of the officer retirement benefit system)

At the Annual General Meeting of Shareholders held on March 11, 2022, the Company passed a resolution to pay retirement benefits for termination to directors and auditors following the abolition of the officer retirement benefit system.

As such, in the consolidated first quarter under review, the Company reversed 218 million yen from the “Provision for directors’ retirement benefits” and included the amount due for the consolidated fiscal year under review in “Other” under “Non-current liabilities” as long-term accounts payable.

Some consolidated subsidiaries continue to prepare for payment of officer retirement benefits, and for this purpose, posted the total amount that needs to be paid at the end of the fiscal year under review in accordance with the internal regulations as “Provision for directors’ retirement benefits.”

(Segment information)

[Segment information]

I. Q1 FY2021 (From January 1, 2021 to March 31, 2021)

1. Information on sales and profit and loss by reported segment

(Million yen)

| | Reported segments | | | Others (Note 1) | Total | Adjustment (Note 2) | Amount on first-quarter consolidated statement of income (Note 3) |
|----------------------------------|-------------------|----------------------|--------|--------------------|--------|------------------------|--|
| | SI business | Facility business | Total | | | | |
| Net sales | | | | | | | |
| Sales to outside customers | 62,844 | 632 | 63,477 | 2,451 | 65,928 | – | 65,928 |
| Inter-segment sales or transfers | 13 | 186 | 200 | 165 | 365 | -365 | – |
| Total | 62,858 | 818 | 63,677 | 2,616 | 66,294 | -365 | 65,928 |
| Segment profit | 4,431 | 139 | 4,570 | 26 | 4,597 | 1 | 4,598 |

Notes:

1. “Others” is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 1 million yen includes an elimination of inter-segment transactions of 1 million yen.
3. The segment profit has been adjusted to the operating income stated in the consolidated income statement.

2. Information on impairment loss in non-current assets and goodwill by reported segment
The presentation of information has been omitted due to its lack of material significance.

II. Q1 FY2022 (From January 1, 2022 to March 31, 2022)

1. Net sales and profit (loss) for each reported segment and the breakdown of revenue

(Million yen)

| | Reported segments | | | Others (Note 1) | Total | Adjustment (Note 2) | Amount on first-quarter consolidated statement of income (Note 3) |
|---------------------------------------|-------------------|----------------------|--------|--------------------|--------|------------------------|--|
| | SI business | Facility business | Total | | | | |
| Net sales | | | | | | | |
| Goods transferred at a point in time | 53,453 | 145 | 53,598 | 476 | 54,075 | – | 54,075 |
| Goods transferred over time | 11,473 | – | 11,473 | 2,761 | 14,235 | – | 14,235 |
| Revenue from contracts with customers | 64,926 | 145 | 65,072 | 3,238 | 68,310 | – | 68,310 |
| Other revenue (Note 4) | 0 | 561 | 561 | 2 | 563 | – | 563 |
| Sales to outside customers | 64,926 | 706 | 65,633 | 3,240 | 68,874 | – | 68,874 |
| Inter-segment sales or transfers | 29 | 134 | 163 | 170 | 334 | -334 | – |
| Total | 64,956 | 841 | 65,797 | 3,411 | 69,209 | -334 | 68,874 |
| Segment profit | 4,612 | 170 | 4,782 | 307 | 5,089 | 0 | 5,089 |

Notes:

1. “Others” is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 0 million yen includes an elimination of inter-segment transactions of 0 million yen.
3. The segment profit has been adjusted to the operating income stated in the consolidated income statement.
4. The main components of other revenue include income from lease based on the Accounting Standard for Lease Transactions (ASBJ Statement No. 13).

2. Information on impairment loss in non-current assets and goodwill by reported segment
The presentation of information has been omitted due to its lack of material significance.

3. Information on changes in reportable segments

As stated in “Changes in accounting principles,” the Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other regulations, effective from beginning of the consolidated first quarter under review and changed the accounting method for revenue recognition. Therefore, the method of measuring the profit or loss of reported segments has also been changed in the same way.

As a result of this change, net sales and segment profit in the SI business for the consolidated first quarter under review increased 573 million yen and 297 million yen, respectively, and net sales and segment profit in “Others” decreased 7 million yen each, compared to the previous method.

In accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue from contracts with customers for the first quarter of the previous fiscal year is not stated.

(Post-balance sheet events)

(Submitting Company) Issuance of stock options as stock-based compensation

At the Board of Directors' meeting held on February 10, 2022, the Company passed a resolution to submit a resolution on the amount of remuneration, etc. concerning stock acquisition rights as stock options for the Company's directors (excluding outside directors) and the contents thereof to the 52nd Annual General Meeting of Shareholders to be held on March 11, 2022, pursuant to the provisions of Article 361 of the Companies Act. The resolution passed as drafted at the 52nd Annual General Meeting of Shareholders that was held on March 11, 2022. At the Board of Directors' meeting held on March 29, 2022, the Company passed a resolution to issue stock acquisition rights as described below and issued the rights on April 28, 2022.

Outline of issuance of stock acquisition rights

1. Number of stock acquisition rights

1,370

The total number of common shares of the Company to be delivered upon exercise of stock acquisition rights shall be one hundred and thirty-seven thousand (137,000). If the number of shares to be granted in relation to the stock acquisition rights is adjusted as prescribed in item 3-(1) below, however, the number shall be the product of the adjusted number of shares to be granted multiplied by the number of the stock acquisition rights.

2. Cash payment in exchange for stock acquisition rights

No payment of money is required in exchange for the stock acquisition rights.

3. Contents of stock acquisition rights

(1) The class and number of shares to be acquired upon exercise of stock acquisition rights

The number of shares of common stock underlying a stock acquisition right ("the Number of Allotted Shares") shall be 100. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the stock acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the stock acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)

If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the stock acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

(2) Value of assets to be contributed upon exercise of each stock acquisition right or the calculation method thereof

The value of assets to be contributed upon exercise of the stock acquisition rights shall be an amount obtained by multiplying the amount to be paid in per share (the "Exercise Price"), which is determined in the following way, by the number of shares to be granted.

The Exercise Price shall be the product of the multiplication by 1.05 of the average of the daily closing price of the common shares of the Company in regular trading on Tokyo Stock Exchange during the month (excluding dates where no trading is made) immediately prior to the month containing the allotment date of the stock acquisition rights (with any fractions of less than 1 yen rounded up). However, where the price calculated in the above way is below the closing price on the allotment date of the stock acquisition rights (or the closing price of the last trade date where no trade was made on the allotment date of the stock acquisition rights), the said closing price shall be the Exercise Price.

In the case where the Company carries out a share split or share consolidation of its stock after the date of allotment of the stock acquisition rights, the Exercise Price shall be adjusted according to the following formula, with the resulting fractions of less than one yen arising from such calculation to be rounded up.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

If the Company issues new common shares or disposes of its treasury shares at a price below the market price of its common shares (excluding the case of the issuance of new shares and the disposal of treasury shares upon exercise of share acquisition rights and the transfer of treasury shares through the exchange of shares), after the allotment date of the stock acquisition rights, the Exercise Price shall be adjusted according to the following formula, and any fraction of less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \text{Exercise Price before adjustment} \times \frac{\text{Number of shares outstanding} + \frac{\text{Number of shares newly issued} \times \text{Paid-in amount per share}}{\text{Market price per share prior to the issuance}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

In the above formula, the “number of shares outstanding” shall be the amount obtained by subtracting the number of treasury shares pertaining to the common shares of the Company from the total number of shares outstanding pertaining to the common shares of the Company. If the Company undertakes the disposal of treasury shares pertaining to its common shares, the “number of shares newly issued” shall be read as the “number of treasury shares to be disposed of.”

In addition to the above, if the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the stock acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.

(3) Exercise period of stock acquisition rights

Period during which the stock acquisition rights can be exercised during April 1, 2024 to March 29, 2027 (hereinafter referred to as the “Exercise Period”) However, when the last day of the Exercise Period is a non-business day of the Company, the business day before that shall be the last day.

(4) Matters related to increases in share capital and legal capital surplus

(i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of stock acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 17, Paragraph 1 of the Company Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.

(ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of stock acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.

(5) Restriction on acquisition of stock acquisition rights by transfer

Any acquisition of stock acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Company.

(6) Conditions for exercise of stock acquisition rights

(i) When exercising the stock acquisition rights, a holder of the stock acquisition rights must have a position as either a director (not an outside director), auditor (not an outside auditor), operating officer, or employee (employee as prescribed in Article 2 of the Company’s Rules of Employment) of the Company. However, this shall not apply if the person has been transferred to a subsidiary or associate and the Board of Directors has given approval, or if the Board of Directors of the Company deems there to be a justifiable reason.

(ii) A holder of stock acquisition rights is not permitted to exercise the stock acquisition rights if any one of the following applies to them.

i. Where the person has become subject to the ruling of commencement of assistance, commencement of curatorship, or commencement of guardianship

ii. Where the person has become subject to the ruling to commence bankruptcy procedures

iii. Where the person has taken the position as an officer, employee, or consultant of a company which is in a competitive relationship with the Company (excluding subsidiaries and associates of the Company); provided, however, that this shall not apply when a prior approval has been given by the Board of Directors of the Company

iv. Where the person is deemed to have committed an act of disloyalty, such as violating a law or the Company’s internal regulations

v. Where the person has violated the agreement on allotment of stock acquisition rights to be concluded between the Company and each person to whom stock acquisition rights are allocated

(iii) Other conditions on exercise of the stock acquisition rights shall be as set forth in the agreement on allotment of stock acquisition rights to be concluded between the Company and each holder of stock acquisition rights.

(iv) Other conditions on exercise of the stock acquisition rights shall be determined through resolutions of the Board of Directors.

4. Allotment date of stock acquisition rights

April 28, 2022

5. Matters concerning the acquisition of stock acquisition rights

(1) If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement

or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company's Board of Directors in the case when the approval of the Company's general meeting of shareholders is not required), the Company may acquire all stock acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.

- (2) If a holder of the stock acquisition rights becomes unable to exercise the stock acquisition rights before he/she exercises the stock acquisition rights under the provisions of 3-(6) above, the Company may acquire the stock acquisition rights without compensation upon arrival of the date separately determined by the Company's Board of Directors.

6. Handling of stock acquisition rights at the time of organizational restructuring

If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the "Reorganization"), the Company shall, in each of the above cases, allot stock acquisition rights of the relevant company from among those listed in "a" through "e" of Article 236, Paragraph 1, Item 8 of the Companies Act (the "Reorganized Company") to the holders of the stock acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such stock acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- (1) Number of stock acquisition rights of the Reorganized Company to be delivered

The same number as the number of stock acquisition rights held by the holder of the stock acquisition rights shall be allotted in each case.

- (2) Class of shares of the Reorganized Company to be issued upon exercise of stock acquisition rights

Shares of common stock of the Reorganized Company

- (3) Number of shares of the Reorganized Company to be issued upon exercise of stock acquisition rights

It shall be determined in accordance with 3. (1) above, taking into consideration the terms and conditions of the Reorganization.

- (4) Value of assets to be contributed upon exercise of each stock acquisition right

The value of assets to be contributed upon exercise of each stock acquisition right to be allotted is the amount obtained by multiplying the strike price after the Reorganization obtained through adjustment of the strike price specified in 3. (2) above, taking into consideration the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each share option as determined in accordance with 6. (3) above.

- (5) Exercise period of stock acquisition rights

The period shall be from the first day of the exercise period specified in 3-(3) above or the effective date of the reorganization, whichever comes later, to the last day of the exercise period specified in 3-(3) above.

- (6) Matters concerning increase in capital and capital reserve upon issuance of shares through the exercise of stock acquisition rights

They shall be determined in accordance with 3. (4) above.

- (7) Restriction on acquisition of stock acquisition rights by transfer

Restriction on the acquisition of the stock acquisition rights through transfer requires approval by the Reorganized Company.

- (8) Other conditions for exercise of stock acquisition rights

They shall be determined in accordance with 3. (6) above.

- (9) Grounds and conditions for acquisition of stock acquisition rights

Matters shall be determined in accordance with 5. above.

- (10) Other conditions are determined according to the conditions for the Reorganized Company.

7. Matters related to stock acquisition right certificates for the stock acquisition rights

The Company shall not issue stock acquisition right certificates for the stock acquisition rights.

8. Person who will receive the allotment of stock acquisition rights and the number of stock acquisition rights

| | | |
|--|------------|---------------------|
| Directors of the Company (excluding outside directors) | 6 persons | 490 (49,000 shares) |
| Operating officers of the Company | 18 persons | 880 (88,000 shares) |

(Submitting Company)

Disposition of treasury shares as restricted stock compensation

At a meeting of the Board of Directors held on March 29, 2022, the Company passed a resolution about disposal of treasury shares as restricted stock compensation for its directors excluding outside directors and its operating officers who do not serve concurrently as directors and disposed of treasury shares as follows.

1. Purpose of the Disposition and reason therefor

At a meeting of the Board of Directors held on February 10, 2022, the Company passed a resolution to introduce a restricted stock compensation plan as a new compensation plan for the Company's directors excluding outside directors (hereinafter, the "Eligible Directors") and operating officers who do not serve concurrently as directors (hereinafter, the "Eligible Directors, etc.") for the purposes of giving the Eligible Directors, etc. the incentive to continuously increase the Company's corporate value and stepping up value sharing with shareholders. In addition, at the 52nd Annual General Meeting of Shareholders held on March 11, 2022, the Company received approvals, including approval to provide monetary compensation claims of up to 150 million yen per year to the Eligible Directors as compensation to be used as properties contributed in kind for acquisition of the restricted stocks and issue or dispose of no more than 30,000 common shares of the Company per year, as well as approval to set the period from the date when common shares of the Company are allotted under the agreement on allotment of restricted stocks to be concluded between the Company and each Eligible Director to the time immediately after resignation from positions as the Company's officers or employees which are specified by the Company's Board of Directors, as a transfer restriction period.

2. Overview of the disposition of treasury stock

| | |
|--|---|
| (1) Payment date | April 28, 2022 |
| (2) Class and number of shares to be disposed of | Common stock of the Company: 11,023 shares |
| (3) Disposition amount | 6,050 yen per share |
| (4) Total disposition amount | 66,689,150 yen |
| (5) Allottees | Six directors of the Company (excluding Outside Directors) 3,506 shares Eighteen Operating officers of the Company who are not Directors of the Company 7,517 shares |
| (6) Other | For the Disposition of Treasury Shares, the Company submits the securities registration statement under the Financial Instruments and Exchange Act. |