

1. Business Highlights for the Three Months of 39th Business Period (Fiscal Year Ending March 31, 2023)

(1) Qualitative Information on Consolidated Results of Operations

During the three months ended June 30, 2022, the Japanese economy saw signs of recovery as vaccinations and measures to prevent the spread of COVID-19 proceeded and restrictions on economic activities were gradually lifted. At the same time, concerns over a resurgence of COVID-19 were growing. In addition, with concerns about economic slowdown, such as increased geopolitical risks stemming from the Russia's invasion of Ukraine, inflation due to rising raw material prices, delivery delays for high-tech products due to semiconductor shortages, soaring crude oil prices and yen depreciation due to the difference in interest rates between Japan and the U.S., the outlook for the Japanese economy remained uncertain.

Now that new work styles including remote working are taking root in the wake of the spread of COVID-19, ransomware and other types of cyber-attacks are becoming more intense. This has heightened awareness of security measures as a management issue, especially among large companies. As a result, the demand for cybersecurity products and services has continued to grow.

Under these circumstances, in the Information Infrastructure Business, the Company's core business, we see strong demand continuing for cloud-based security measure products. Orders are also steadily growing for integrated security monitoring services provided by the Company, proving that its value-added strategies are bearing fruits.

In the Application Services Business, new inquiries are steady in the CRM field thanks to business collaborations with a major system integrator and telemarketing vendor, an expanding demand for cloud services, improved name recognition, and the expansion of business performance. For overseas markets, we have continued to work to accelerate business development in the ASEAN market based on the capital and business alliance with Wiselight (Thailand) Company Limited, the largest company in the social data analysis cloud field in Thailand. In the Software Quality Assurance field, demand remains strong for testing tools for in-vehicle software. In this field, too, a shift to recurring revenue business models has been underway as subscription-based services have increased.

In the Medical Systems Business, which was newly spun out as a separate business segment this fiscal year, the new PSP Corporation ("PSP") started several initiatives (PSP was established on April 1, 2022, with a merger between NOBORI Ltd., which spun out from the Company to become its consolidated subsidiary in 2018, and the former PSP Corporation, which became the Company's consolidated subsidiary in February 2022.). PSP has been working to unify our customer base and integrate our products and services, as well as promoting cloud-based PACS (medical imaging management) with the aim of shifting to recurring revenue business models. In addition, PSP has endeavored to expand the number of users of Personal Health Record (PHR) services for individual customers, which were promoted by NOBORI Ltd. before. For the business of AI-based medical image diagnostic support services, M3 AI, Inc. (established as a joint venture between PSP and M3, Inc. on April 1, 2022) has been taking the lead in accelerating the distribution of AI to medical practices.

With a mission statement of being "the IT professional group who create a better future," the Company announced the new Medium-term Management Plan "BEYOND THE NEW NORMAL" on May 10, 2021. In the future, as "digital" is built into every corner of society and digital transformation (DX), which reforms business models using digital technology, advances rapidly, the Company sees this rapid shift to digitization and the dramatic restructuring of industry as a new growth opportunity and aims to contribute to the creation of a sustainable society by providing services to solve social issues. The spread of COVID-19 has prompted us to shift to a new mode of life called the "New Normal." In the new Medium-term Management Plan, we will accelerate businesses oriented toward domains that will be essential to society, incorporating an SDG perspective with an eye on the new society to come after the "New Normal."

The new Medium-term Management Plan "BEYOND THE NEW NORMAL" states seven key strategies to be achieved while carrying on with the core business strategies of the previous Medium-term Management Plan "GO BEYOND 3.0."

- The core business strategies (continued)
 - Strategic and accelerated promotion of cloud-related businesses
 - Pursuit of security and safety
- The seven key strategies
 - 1) Expanding portfolio of products and services
 - 2) Accelerated servicization (increasing service ratio)
 - 3) Utilization of data (including use of AI)
 - 4) Diverse alliances/M&A (Expansion of existing business, Creation of new business)
 - 5) Expanding business in the overseas market
 - 6) Creation of synergies by strengthening group collaboration
 - 7) Human resource development/Organizational development (including promotion of diversity)

Our Group implemented the following initiatives in accordance with the above business strategies.

◇ Information Infrastructure Business

First quarter ended June 30, 2022

- Okinawa Cross Head Co., Ltd renamed to OCH Co., Ltd. and changed its corporate logo.
- OCH launched OCH SG-ONE, an easy-to-implement, one-stop security solution for small and medium-sized businesses.
- Received the Partner of the Year 2022 and Deal Registration of the Year 2022 from Proofpoint Japan K.K.
- Received the MVP Partner of the Year 2021 from TANIUM.

◇ Application Services Business

First quarter ended June 30, 2022

- Software Quality Assurance field: The latest version of Ranorex 10.2, a UI testing automation tool with powerful object recognition capabilities, became available in Japanese.
- EdTech field: Started a joint project for the use of study logs with Compass Inc., which develops and provides Qubena, AI-based teaching materials.
- EdTech field: Acquired a patent for a class scheduling system that supports individually optimized learning.
- EdTech field: Implemented “tsumugino” cloud services for Baika Junior High School and Baika High School.

◇ Medical Systems Business

First quarter ended June 30, 2022

- PSP started to provide Brain Healthcare Program that visualizes brain health together with Splink and Millennia.
- PSP started integration of NOBORI (a PHR app) with Mynaportal.

As a result of the above, revenue during the three months ended June 30, 2022 increased ¥2,270 million (29.8%) year on year to ¥9,883 million, achieving a record high. Gross profit increased ¥869 million (33.4%) year on year to ¥3,471 million. Selling, general and administrative expenses increased ¥639 million (32.7%) year on year to ¥2,594 million, due to an increase in personnel expenses and other factors. Accordingly, operating profit increased ¥249 million (38.6 %) year on year to ¥897 million.

Consequently, profit before tax increased ¥261 million (40.3%) year on year to ¥909 million, and profit attributable to owners of parent increased ¥74 million (17.5%) year on year to ¥502 million.

Results by operating segment were as follows:

The Company has changed its reportable segments in the first quarter ended June 30, 2022. For the details, refer to “(2) Information related to changes in reportable segments” in “(4) Notes to Condensed Quarterly Consolidated Financial Statements” (in Japanese only).

1) Information Infrastructure Business

Results of the Information Infrastructure Business for the three months ended June 30, 2022 were strong thanks to abundant order backlog accumulated in the previous fiscal year and orders for new projects. Orders are on the increase for cloud security measure products with subscription-based pricing models. Sales in western Japan have also remained strong from the previous fiscal year. Orders received and revenue for the three months ended June 30, 2022, exceeded the results for the previous fiscal year on a consolidated basis. On the other hand, operating profit slightly decreased compared to the previous fiscal year. This is mainly due to a weak yen, increases in labor costs and selling, general and administrative expenses, and investments in cloud-native solutions, a new business we started to work on. By product, a new generation of security measure products, including “SASE (Secure Access Service Edge),” “CASB (Cloud Access Security Broker),” “Cyber Hygiene” and “SDP (Software Defined Perimeter)” are also attracting attention with an increase in adoption. Since Russia’s military invasion of Ukraine, infection with malware such as Emotet and ransomware attacks has been spreading. As such infections are primarily introduced via emails, demand for next-generation email security products was also strong.

At CROSS HEAD, both revenue and operating profit were in line with the plan. Orders for infrastructure development projects were heading toward recovery, but delayed delivery of network equipment due to shortage of semiconductors caused some development projects with major SI companies to be postponed.

At OCH Co., Ltd., both revenue and operating profit were in line with the plan as subscription-based services increased and a shift to recurring revenue business models progressed.

As a result, revenue of the business increased ¥1,014 million (19.3%) year on year to ¥6,281 million, achieving a record high, while operating profit decreased ¥1 million (0.3%) year on year to ¥590 million.

2) Application Services Business

As with the Information Infrastructure Business, results of the Application Services Business for the three months ended June 30, 2022 were solid thanks to abundant order backlog accumulated in the previous fiscal year and orders for new projects.

In the CRM field, both revenue and operating profit were in line with the plan.

In the Software Quality Assurance field, demand remained robust for testing tools used to ensure quality of enterprise systems and embedded software. With the further application of IT in automobiles, there is strong demand for improvement in the quality of embedded software in the manufacturing industry, etc., which develops in-vehicle software, and orders continued to be favorable. However, as orders are increasing for subscription-based licenses, growth in revenue and operating profit is relatively moderate, because sales are deferred over the term of contracts.

In the Business Solutions field, we were slightly behind in terms of orders since we lost some expected orders. Toward the second quarter, we will endeavor to increase orders.

At Information Design & Architecture Yamazaki Co., Ltd., revenue and operating profit were slightly below the plan as new sales activities were slow partly because it focused on existing projects. The challenge to be addressed is to increase orders by rebuilding the sales structure and promoting sales activities. At CASAREAL, Inc., both revenue and operating profit exceeded the plan. In particular, the education business such as IT training for new employees was robust, leading the overall performance.

In the new education services, our school communication platform has been adopted by famous private advanced schools and small public schools. To start up the business swiftly, we continue active investments in line with the plan, strengthening sales and marketing activities intensively.

As a result, revenue of the business decreased ¥12 million (0.8%) year on year to ¥1,593 million, while operating loss increased ¥10 million (19.1%) year on year to ¥64 million.

3) Medical Systems Business

In the Medical field, orders for “NOBORI,” a cloud service for medical information offered by the new PSP Corporation, established on April 1, 2022, remained strong, and the cumulative number of contracting facilities increased. Meanwhile, upfront investments are continuing in projects such as the development of PHR services targeted at consumers (patients) and the joint development of medical image diagnostic support systems in conjunction with AI venture companies and doctors, and they have achieved strong results. The overall performance of PSP resulted in an excess of revenue and a significant excess of profit compared to the planned figures. This was because a shift to the cloud, which was planned to be implemented at the beginning of the current fiscal year, did not fully proceed in former PSP Corporation’s PACS (medical imaging management) business, where sales were comprised of sale and maintenance of on-premise products.

Ichigo LLC, our Medical-related consolidated subsidiary, remained strong as well, overachieving the plan for the fiscal year under review.

With respect to safety management systems for medical radiation, the Ministerial Order Partially Amending the Enforcement Regulations on the Medical Care Act was already enforced. However, supervisory bodies have made little progress on audits due to the pandemic, and medical institutions’ investment appetite for installation of radiation dose management systems is not as high as anticipated. As a result, at A-Line Co., Ltd., orders received were somewhat sluggish, while sales were roughly in line with the plan as its business is subscription-based. In addition, A-Line Co., Ltd. aims to improve profit by reducing costs.

As a result, revenue of the business increased ¥1,268 million (171.4%) year on year to ¥2,007 million. Operating profit increased ¥261 million (239.1%) year on year to ¥371 million.

(2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥1,342 million (3.2%) from March 31, 2022 to ¥43,610 million as of June 30, 2022. The principal factor in this change was an increase of ¥1,571 million in cash and cash equivalents. Non-current assets stood at ¥10,676 million, an increase of ¥440 million (4.3%) from March 31, 2022. The principal factor in this change was a ¥420 million increase in other financial assets. As a result, total assets amounted to ¥54,286 million, an increase of ¥1,783 million (3.4%) from March 31, 2022.

Current liabilities stood at ¥28,954 million, an increase of ¥964 million (3.4%) from March 31, 2022. The principal factor in this change was an increase of ¥2,636 million in contract liabilities. Non-current liabilities stood at ¥4,177 million, a ¥134 million (3.1%) decrease from March 31, 2022. The principal factor in this change was a ¥52 million decrease in deferred tax liabilities. As a result, total liabilities amounted to ¥33,131 million, an increase of ¥829 million (2.6%) from March 31, 2022.

Total equity was ¥21,155 million, up ¥953 million (4.7%) from March 31, 2022. The principal factor in this change was an increase of ¥1,159 million in non-controlling interests. As a result, the ratio of equity attributable to owners of parent to total assets was 31.0%.

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

At this point, the financial results forecast is unchanged from the figures announced on May 9, 2022.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

| | As of March 31, 2022 | As of June 30, 2022 |
|---|----------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | 18,155,903 | 19,727,132 |
| Trade and other receivables | 5,925,359 | 3,704,214 |
| Inventories | 561,382 | 529,098 |
| Advance payments to suppliers | 11,280,216 | 12,338,996 |
| Advance payment - cost of maintenance service | 5,510,575 | 6,159,330 |
| Other financial assets | – | 73,181 |
| Other current assets | 833,884 | 1,078,355 |
| Total current assets | 42,267,321 | 43,610,309 |
| Non-current assets | | |
| Property, plant and equipment | 3,506,475 | 3,395,416 |
| Goodwill | 171,978 | 171,978 |
| Intangible assets | 1,752,207 | 1,850,634 |
| Investments accounted for using equity method | – | 136,060 |
| Other financial assets | 2,739,527 | 3,159,818 |
| Deferred tax assets | 1,645,860 | 1,539,580 |
| Other non-current assets | 420,341 | 423,037 |
| Total non-current assets | 10,236,391 | 10,676,527 |
| Total assets | 52,503,713 | 54,286,836 |

(Thousand yen)

| | As of March 31, 2022 | As of June 30, 2022 |
|---|----------------------|---------------------|
| Liabilities | | |
| Current liabilities | | |
| Trade and other payables | 2,158,981 | 1,548,946 |
| Borrowings | 595,000 | 595,000 |
| Lease liabilities | 867,594 | 692,840 |
| Income taxes payable | 1,115,294 | 541,438 |
| Contract liabilities | 19,692,808 | 22,329,216 |
| Provisions | 505,468 | 475,455 |
| Other current liabilities | 3,054,843 | 2,771,123 |
| Total current liabilities | 27,989,991 | 28,954,021 |
| Non-current liabilities | | |
| Borrowings | 500,000 | 450,000 |
| Lease liabilities | 1,534,536 | 1,487,711 |
| Retirement benefit liability | 1,857,080 | 1,883,811 |
| Deferred tax liabilities | 52,622 | – |
| Other non-current liabilities | 367,205 | 355,771 |
| Total non-current liabilities | 4,311,445 | 4,177,294 |
| Total liabilities | 32,301,437 | 33,131,316 |
| Equity | | |
| Share capital | 1,298,120 | 1,298,120 |
| Capital surplus | 4,861,825 | 4,586,588 |
| Treasury shares | (975,804) | (974,490) |
| Retained earnings | 11,149,198 | 11,132,733 |
| Other components of equity | 685,431 | 769,147 |
| Total equity attributable to owners of parent | 17,018,771 | 16,812,098 |
| Non-controlling interests | 3,183,504 | 4,343,421 |
| Total equity | 20,202,276 | 21,155,520 |
| Total liabilities and equity | 52,503,713 | 54,286,836 |

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

Condensed Quarterly Consolidated Statement of Profit or Loss

For the three months ended June 30

(Thousand yen)

| | For the three months ended June 30, 2021 | For the three months ended June 30, 2022 |
|---|---|---|
| Revenue | 7,612,950 | 9,883,710 |
| Cost of sales | (5,010,286) | (6,411,798) |
| Gross profit | 2,602,664 | 3,471,912 |
| Selling, general and administrative expenses | (1,955,312) | (2,594,990) |
| Other income | 785 | 43,302 |
| Other expenses | (729) | (23,014) |
| Operating profit | 647,408 | 897,209 |
| Finance income | 4,484 | 29,816 |
| Finance costs | (3,552) | (13,544) |
| Share of profit (loss) of investments accounted for using equity method | – | (3,939) |
| Profit before tax | 648,341 | 909,541 |
| Income tax expense | (197,449) | (281,262) |
| Profit | 450,891 | 628,278 |
| Profit attributable to: | | |
| Owners of parent | 427,631 | 502,401 |
| Non-controlling interests | 23,260 | 125,877 |
| Earnings per share | | |
| Basic earnings per share (Yen) | 10.76 | 12.59 |
| Diluted earnings per share (Yen) | 10.73 | 12.55 |

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the three months ended June 30

(Thousand yen)

| | For the three months ended June 30, 2021 | For the three months ended June 30, 2022 |
|--|---|---|
| Profit | 450,891 | 628,278 |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss | | |
| Equity financial assets measured at fair value through other comprehensive income | (32,244) | 50,100 |
| Total of items that will not be reclassified to profit or loss | (32,244) | 50,100 |
| Items that may be reclassified to profit or loss | | |
| Cash flow hedges | 3 | 50,658 |
| Total of items that may be reclassified to profit or loss | 3 | 50,658 |
| Other comprehensive income, net of tax | (32,241) | 100,759 |
| Comprehensive income | 418,650 | 729,037 |
| Comprehensive income attributable to: | | |
| Owners of parent | 395,389 | 595,466 |
| Non-controlling interests | 23,260 | 133,571 |

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the three months ended June 30, 2021

(Thousand yen)

| | Equity attributable to owners of parent | | | | | |
|--------------------------------------|---|-----------------|-----------------|-------------------|----------------------------|---|
| | Share capital | Capital surplus | Treasury shares | Retained earnings | Other components of equity | |
| | | | | | Share acquisition rights | Remeasurements of defined benefit plans |
| Balance at April 1, 2021 | 1,298,120 | 4,619,915 | (1,011,805) | 9,450,986 | 98,152 | – |
| Profit | – | – | – | 427,631 | – | – |
| Other comprehensive income | – | – | – | – | – | – |
| Comprehensive income | – | – | – | 427,631 | – | – |
| Dividends of surplus | – | – | – | (476,903) | – | – |
| Purchase of treasury shares | – | – | (88) | – | – | – |
| Share-based payment transactions | – | – | – | – | 5,359 | – |
| Total transactions with owners, etc. | – | – | (88) | (476,903) | 5,359 | – |
| Balance at June 30, 2021 | 1,298,120 | 4,619,915 | (1,011,894) | 9,401,713 | 103,511 | – |

| | Equity attributable to owners of parent | | | | Non-controlling interests | Total equity |
|--------------------------------------|---|------------------|----------|---|---------------------------|--------------|
| | Other components of equity | | | Total equity attributable to owners of parent | | |
| | Equity financial assets measured at fair value through other comprehensive income | Cash flow hedges | Total | | | |
| Balance at April 1, 2021 | 386,476 | 2,919 | 487,548 | 14,844,764 | 1,509,964 | 16,354,728 |
| Profit | – | – | – | 427,631 | 23,260 | 450,891 |
| Other comprehensive income | (32,244) | 3 | (32,241) | (32,241) | – | (32,241) |
| Comprehensive income | (32,244) | 3 | (32,241) | 395,389 | 23,260 | 418,650 |
| Dividends of surplus | – | – | – | (476,903) | (3,000) | (479,903) |
| Purchase of treasury shares | – | – | – | (88) | – | (88) |
| Share-based payment transactions | – | – | 5,359 | 5,359 | – | 5,359 |
| Total transactions with owners, etc. | – | – | 5,359 | (471,632) | (3,000) | (474,632) |
| Balance at June 30, 2021 | 354,232 | 2,922 | 460,666 | 14,768,522 | 1,530,225 | 16,298,747 |

For the three months ended June 30, 2022

(Thousand yen)

| | Equity attributable to owners of parent | | | | | |
|---|---|-----------------|-----------------|-------------------|----------------------------|---|
| | Share capital | Capital surplus | Treasury shares | Retained earnings | Other components of equity | |
| | | | | | Share acquisition rights | Remeasurements of defined benefit plans |
| Balance at April 1, 2022 | 1,298,120 | 4,861,825 | (975,804) | 11,149,198 | 116,116 | – |
| Profit | – | – | – | 502,401 | – | – |
| Other comprehensive income | – | – | – | – | – | – |
| Comprehensive income | – | – | – | 502,401 | – | – |
| Dividends of surplus | – | – | – | (518,866) | – | – |
| Purchase of treasury shares | – | – | (42) | – | – | – |
| Disposal of treasury shares | – | 3,679 | 1,356 | – | – | – |
| Share-based payment transactions | – | 2,446 | – | – | 4,726 | – |
| Exercise of stock acquisition rights | – | – | – | – | (5,030) | – |
| Changes in ownership interest in subsidiaries | – | (281,362) | – | – | – | – |
| Total transactions with owners, etc. | – | (275,236) | 1,314 | (518,866) | (303) | – |
| Balance at June 30, 2022 | 1,298,120 | 4,586,588 | (974,490) | 11,132,733 | 115,813 | – |

| | Equity attributable to owners of parent | | | | Non-controlling interests | Total equity |
|---|---|------------------|---------|---|---------------------------|--------------|
| | Other components of equity | | | Total equity attributable to owners of parent | | |
| | Equity financial assets measured at fair value through other comprehensive income | Cash flow hedges | Total | | | |
| Balance at April 1, 2022 | 569,315 | – | 685,431 | 17,018,771 | 3,183,504 | 20,202,276 |
| Profit | – | – | – | 502,401 | 125,877 | 628,278 |
| Other comprehensive income | 42,406 | 50,658 | 93,065 | 93,065 | 7,693 | 100,759 |
| Comprehensive income | 42,406 | 50,658 | 93,065 | 595,466 | 133,571 | 729,037 |
| Dividends of surplus | – | – | – | (518,866) | (6,946) | (525,813) |
| Purchase of treasury shares | – | – | – | (42) | – | (42) |
| Disposal of treasury shares | – | – | – | 5,036 | – | 5,036 |
| Share-based payment transactions | – | – | 4,726 | 7,173 | – | 7,173 |
| Exercise of stock acquisition rights | – | – | (5,030) | (5,030) | – | (5,030) |
| Changes in ownership interest in subsidiaries | (9,046) | – | (9,046) | (290,409) | 1,033,292 | 742,883 |
| Total transactions with owners, etc. | (9,046) | – | (9,350) | (802,139) | 1,026,345 | 224,206 |
| Balance at June 30, 2022 | 602,675 | 50,658 | 769,147 | 16,812,098 | 4,343,421 | 21,155,520 |