

1. Business Highlights for the Six Months of 38th Business Period (Fiscal Year Ending March 31, 2022)

(1) Qualitative Information on Consolidated Results of Operations

During the six months ended September 30, 2021, the outlook for the Japanese economy remained uncertain due to the intermittent arrival of waves of the spread of the novel coronavirus (COVID-19) caused by the emergence of variants, and remaining concerns about the reemergence of infection.

In society as a whole, rapid progress is being made in digitization as seen in telework, online diagnosis, and online classes (the GIGA School Program), which has further highlighted the importance of cybersecurity measure products and services that support safety and security in a digital society. Under these circumstances, in the Information Infrastructure Business, our core business, demand for our cloud-based security measure products has continued to grow strongly. In addition, the integrated security monitoring service we provide is also steadily increasing its orders, and our strategy to increase added value is bearing fruit. In the Application Services Business, we worked to expand the number of users of Personal Health Record (PHR) services for individual customers in the Healthcare field and accelerate our AI medical image diagnosis support services. Moreover, with the aim of accelerating the CRM field business development in the ASEAN market, the Company entered into a capital and business alliance with WISESIGHT (THAILAND) CO., LTD., the largest company in the social data analysis cloud field in Thailand. We are also making steady progress in the full launch of the education services, our new business, from the outset. Demand for testing tools that ensure the quality of embedded software in automotive and other fields and IT systems for corporations is also steady.

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, 2021

- CROSS HEAD launched a remote support service for transitioning to the cloud version of Cybozu’s Office.

- CROSS HEAD launched a plugin that links the workflow functions of Cybozu's Garoon with kintone.
- Awarded the "Best Distributor of the Year" from McAfee Co., Ltd.
- Started sales of Vectra AI "Cognito Platform," a next-generation network AI security product that visualizes potential threats in networks and achieves early detection by utilizing AI.

Second quarter ended September 30, 2021

- Started linking "Votiro," a file sanitization solution, with "m-FILTER," an email security product.
- CROSS HEAD began offering the "Cybozu Office Cloud Migration Pack," which remotely supports migration to the cloud version of the Cybozu Office.
- Okinawa Cross Head Co., Ltd. launched Remote Browser powered by Ericom Shield Cloud.
- Received Channel Services Delivery Excellence Award from Dell Technologies.
- Okinawa Cross Head Co., Ltd. launched "STEC on Chromebook," a one-stop service that supports remote work from software to hardware.

◇ Application Services Business

First quarter ended June 30, 2021

- Healthcare field: NOBORI Ltd. started linking its PHR application developed in-house with MCI Screen® provided by MILLENNIA Corporation.
- CRM field: Started linking CRM system for call centers "FastHelp5" with RevComm's voice analysis AI telephone service "MiiTel."
- Software Quality Assurance field: Started sales of solutions for establishing software development infrastructure, which support CI/CD, software configuration management, and cloud infrastructure construction.
- Software Quality Assurance field: Launched a cloud version of test case management tool "TestRail."
- Business Solution field: Introduced the cloud service "tsumugino" for Yokohama Soei Junior & Senior High School, educational organization Horii Gakuen.
- Business Solution field: Introduced the cloud service "tsumugino" for Nitobe Bunka Junior & Senior High School, educational organization Nitobe Bunka Gakuen.
- Business Solution field: Development Bank of Japan Inc. adopted TECHMATRIX's "FINCAD CVA Measurement Service."
- CASAREAL, Inc. participated in the business partner program of NPO LPI-Japan.

Second quarter ended September 30, 2021

- CRM field: Entered into a capital and business alliance with WISESIGHT (THAILAND) CO., LTD., the largest social data analysis cloud provider in Thailand, accelerating the expansion of CRM solutions business in the ASEAN region.
- CRM field: Began linking "FastHelp5," a CRM system for call centers, with "BlueBean," a cloud-based call center system of SOFTSU Co., Ltd.
- Software Quality Assurance field: Began providing software testing support and verification services.
- Software Quality Assurance field: Launched "Jtest 2021.1," a Java-enabled testing automation tool.
- Software Quality Assurance field: The latest Version 9.5 of "Ranorex Japanese version," a UI testing automation tool with powerful object recognition capabilities, became available.
- Software Quality Assurance field: Launched the Japanese version of "Understand 6," a high-speed source code analysis tool.
- Business Solution field: Received certification as a Google for Education Build partner.

As a result of the above, revenue during the six months ended September 30, 2021 increased ¥1,507 million (10.3%) year on year to ¥16,146 million, achieving a record high. Gross profit increased ¥209 million (3.9%) year

on year to ¥5,534 million. Selling, general and administrative expenses increased ¥271 million (7.4%) year on year to ¥3,935 million due to an increase in personnel expenses, an increase in expenses for participation in large-scale exhibitions, which had been curtailed due to the cancellation of exhibitions in the previous fiscal year, and an increase in selling, general and administrative expenses due to proactive investments in the education field, a new business. Accordingly, operating profit decreased ¥60 million (3.6%) year on year to ¥1,601 million.

Consequently, profit before tax decreased ¥59 million (3.6%) year on year to ¥1,599 million, and profit attributable to owners of parent decreased ¥53 million (4.9%) year on year to ¥1,045 million.

Results by operating segment were as follows:

1) Information Infrastructure Business

Results of the Information Infrastructure Business for the six months ended September 30, 2021 were strong thanks to abundant order backlog accumulated in the previous fiscal year and orders for new large-scale 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. Consolidated orders received, revenue, and operating profit for the six months ended September 30, 2021 exceeded the budgeted amounts set at the beginning of the fiscal year. In addition, there was special demand for security-related products that support remote work due to the spread of COVID-19, and results exceeded the results of the previous fiscal year, when selling, general and administrative expenses were suppressed due to the cancellation of large-scale exhibitions and other factors. By product, with regard to the mainstay next-generation firewalls, demand for cloud-based services is rapidly expanding. Large-scale orders for swift development of a remote working environment and for centralization of security measures in various business locations have contributed to expansion of the business. Storage products for media and entertainment industries also showed steady results.

Orders and revenue in integrated security operation and monitoring services also showed a clear trend toward expansion. In addition, a new generation of security measure products, including “Cloud Access Security Broker (CASB)” that supports security for the era of the cloud, “Secure Access Service Edge (SASE),” “Cyber Hygiene,” and “Software Defined Perimeter (SDP)” are also attracting attention with an increase in adoption.

CROSS HEAD is having some difficulty in receiving new orders for infrastructure development projects.

At Okinawa Cross Head Co., Ltd., sales of security-related products and remote desktop services remained strong owing to adoption of telework. Profitability also improved due to business restructuring.

As a result, revenue of the business increased ¥1,457 million (14.8%) year on year to ¥11,289 million, achieving a record high, while operating profit increased ¥153 million (12.5%) year on year to ¥1,379 million.

2) Application Services Business

With regard to the results of the Application Services Business for the six months ended September 30, 2021, orders were solid except in the CRM field. However, the increase in revenue was limited, and consolidated operating profit paled in comparison to figures from the previous fiscal year as a result of postponing the recording of sales due to delays in receiving orders in the CRM field, deferred sales from the increase in subscription-based licenses, an increase in promotional expenses from participating in exhibitions, etc.

In the Healthcare field, orders for “NOBORI,” a cloud service for healthcare information offered by NOBORI Ltd., have remained strong, and the cumulative number of contracting facilities increased. In addition, service contracts with existing users have been renewed without exception. 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. Medical-related consolidated subsidiaries Ichigo LLC and A-Line Co., Ltd., both exceeded their initial operating profit budgets and maintained solid performance.

In the CRM field, new inquiries were steady thanks to enhanced competitiveness from entry of the next-

generation products and functionally enhanced FAQ systems into the market, business collaborations with a major system integrator and telemarketing vendor, expanding demand for cloud services, improved name recognition, and the expansion of business performance. However, as has been the trend since the previous fiscal year, there was a noticeable delay in the timing of orders, resulting in weak revenue and profits. Thus, the Company must work to win back orders in the future. In addition, we will work to accelerate business development in the ASEAN market based on the capital and business alliance with WISESIGHT (THAILAND) CO., LTD., the largest company in the social data analysis cloud field in Thailand.

In the Software Quality Assurance field, although results were impacted by the slowdown in investment in the manufacturing industry due to the spread of COVID-19 in the previous fiscal year, investment has trended toward recovery since the first quarter of the current fiscal year. In addition, with the further application of IT in automobiles, there was a strong need for improvement in the quality of embedded software in the manufacturing industry, etc., which develops in-vehicle software, and thus the field continued to maintain a favorable order-taking environment. However, growth of revenue and operating profit tended to be limited as orders of subscription-based licenses are increasing and sales are deferred based on contract periods.

In the Business Solution field, orders for system development projects were robust for public academic institutions, one of our existing customers. In the field of risk management for financial institutions, we are steadily capturing development demand to accommodate the abolition of LIBOR. On the other hand, due to the occurrence of unprofitable projects, the Company struggled with profits.

Information Design & Architecture Yamazaki Co., Ltd. is slightly underperforming in terms of profits. In the previous fiscal year, the provision of face-to-face training in the IT technology training business of CASAREAL, Inc. was negatively impacted by the repeated declaration of the state of emergency, but the Company continued to work on the development of online training services in tandem with face-to-face training. Demand in the contracted development division and consulting services specializing in cloud-related technologies remained solid.

As for education services, a new business, we are continuing to make proactive investments in line with plans, such as significantly strengthening sales and marketing activities to fully launch business from the outset, and this is a factor that is lowering the profit level of the Application Services Business.

As a result, revenue of the business increased ¥49 million (1.0%) year on year to ¥4,856 million, achieving a record high, while operating profit decreased ¥213 million (49.1%) year on year to ¥221 million. The main reasons for this were proactive investments in education services, a new business, a reactionary drop in demand for renewal in the CRM business, which had continued through the previous fiscal year, and the occurrence of unprofitable projects in the Business Solution business.

(2) Qualitative Information on Consolidated Financial Position

Current assets increased ¥2,148 million (6.9%) from March 31, 2021 to ¥33,318 million as of September 30, 2021. The principal factor in this change was an increase of ¥2,417 million in advance payments to suppliers. Non-current assets stood at ¥9,208 million, an increase of ¥382 million (4.3%) from March 31, 2021. The principal factor in this change was a ¥339 million increase in other investment securities under other financial assets. As a result, total assets amounted to ¥42,527 million, an increase of ¥2,530 million (6.3%) from March 31, 2021.

Current liabilities stood at ¥21,069 million, an increase of ¥2,167 million (11.5%) from March 31, 2021. The principal factor in this change was an increase of ¥1,856 million in advances received. Non-current liabilities stood at ¥4,499 million, a ¥239 million (5.1%) decrease from March 31, 2021. The principal factor in this change was a ¥126 million decrease in lease liabilities (non-current). As a result, total liabilities amounted to ¥25,569 million, an increase of ¥1,927 million (8.2%) from March 31, 2021.

Total equity was ¥16,957 million, up ¥602 million (3.7%) from March 31, 2021. The principal factor in this change was an increase of ¥569 million in retained earnings. As a result, the ratio of equity attributable to owners of parent to total assets was 36.2%.

(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 10, 2021.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Thousand yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	14,634,332	14,208,589
Trade and other receivables	3,915,018	3,299,207
Inventories	62,650	206,091
Advance payments to suppliers	7,137,765	9,555,552
Advance payment - cost of maintenance service	4,572,454	4,888,598
Other current assets	847,758	1,160,738
Total current assets	31,169,979	33,318,777
Non-current assets		
Property, plant and equipment	4,289,583	4,254,462
Goodwill	164,903	164,903
Intangible assets	1,473,636	1,537,574
Other financial assets	1,564,085	1,903,877
Deferred tax assets	915,097	931,871
Other non-current assets	418,859	415,561
Total non-current assets	8,826,165	9,208,250
Total assets	39,996,145	42,527,028

(Thousand yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Trade and other payables	1,369,188	1,236,289
Borrowings	699,283	595,800
Lease liabilities	758,984	811,215
Income taxes payable	537,902	573,134
Contract liabilities	13,408,115	16,016,507
Provisions	—	1,652
Other current liabilities	2,128,655	1,834,845
Total current liabilities	18,902,130	21,069,443
Non-current liabilities		
Borrowings	700,000	600,000
Lease liabilities	2,460,621	2,277,822
Retirement benefit liability	1,219,226	1,259,789
Provisions	109,337	109,222
Deferred tax liabilities	10,332	4,730
Other non-current liabilities	239,769	248,382
Total non-current liabilities	4,739,286	4,499,949
Total liabilities	23,641,416	25,569,393
Equity		
Share capital	1,298,120	1,298,120
Capital surplus	4,619,915	4,619,915
Treasury shares	(1,011,805)	(1,011,975)
Retained earnings	9,450,986	10,020,039
Other components of equity	487,548	458,691
Total equity attributable to owners of parent	14,844,764	15,384,792
Non-controlling interests	1,509,964	1,572,843
Total equity	16,354,728	16,957,635
Total liabilities and equity	39,996,145	42,527,028

(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 six months ended September 30

(Thousand yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Revenue	14,639,494	16,146,626
Cost of sales	(9,314,608)	(10,611,921)
Gross profit	5,324,885	5,534,704
Selling, general and administrative expenses	(3,664,385)	(3,935,464)
Other income	4,039	3,387
Other expenses	(3,244)	(1,495)
Operating profit	1,661,294	1,601,132
Finance income	11,619	9,975
Finance costs	(13,955)	(11,385)
Profit before tax	1,658,958	1,599,722
Income tax expense	(515,276)	(487,886)
Profit	1,143,682	1,111,836
Profit attributable to:		
Owners of parent	1,099,886	1,045,957
Non-controlling interests	43,795	65,878
Earnings per share		
Basic earnings per share (Yen)	27.68	26.32
Diluted earnings per share (Yen)	27.60	26.24

Condensed Quarterly Consolidated Statement of Comprehensive Income
For the six months ended September 30

(Thousand yen)

	For the six months ended September 30, 2020	For the six months ended September 30, 2021
Profit	1,143,682	1,111,836
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Equity financial assets measured at fair value through other comprehensive income	48,277	(38,210)
Total of items that will not be reclassified to profit or loss	48,277	(38,210)
Items that may be reclassified to profit or loss		
Cash flow hedges	(1,757)	843
Total of items that may be reclassified to profit or loss	(1,757)	843
Other comprehensive income, net of tax	46,519	(37,367)
Comprehensive income	1,190,201	1,074,468
Comprehensive income attributable to:		
Owners of parent	1,146,406	1,008,590
Non-controlling interests	43,795	65,878

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

For the six months ended September 30, 2020

(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, 2020	1,298,120	4,619,915	(1,011,553)	7,791,730	77,561	-
Profit	-	-	-	1,099,886	-	-
Other comprehensive income	-	-	-	-	-	-
Comprehensive income	-	-	-	1,099,886	-	-
Dividends of surplus	-	-	-	(357,678)	-	-
Purchase of treasury shares	-	-	(175)	-	-	-
Share-based payment transactions	-	-	-	-	9,872	-
Total transactions with owners, etc.	-	-	(175)	(357,678)	9,872	-
Balance at September 30, 2020	1,298,120	4,619,915	(1,011,728)	8,533,938	87,433	-

	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, 2020	224,785	2,202	304,548	13,002,761	1,430,438	14,433,200
Profit	-	-	-	1,099,886	43,795	1,143,682
Other comprehensive income	48,277	(1,757)	46,519	46,519	-	46,519
Comprehensive income	48,277	(1,757)	46,519	1,146,406	43,795	1,190,201
Dividends of surplus	-	-	-	(357,678)	-	(357,678)
Purchase of treasury shares	-	-	-	(175)	-	(175)
Share-based payment transactions	-	-	9,872	9,872	-	9,872
Total transactions with owners, etc.	-	-	9,872	(347,981)	-	(347,981)
Balance at September 30, 2020	273,062	444	360,940	13,801,185	1,474,234	15,275,420

For the six months ended September 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	-	-	-	1,045,957	-	-
Other comprehensive income	-	-	-	-	-	-
Comprehensive income	-	-	-	1,045,957	-	-
Dividends of surplus	-	-	-	(476,903)	-	-
Purchase of treasury shares	-	-	(169)	-	-	-
Share-based payment transactions	-	-	-	-	8,510	-
Total transactions with owners, etc.	-	-	(169)	(476,903)	8,510	-
Balance at September 30, 2021	1,298,120	4,619,915	(1,011,975)	10,020,039	106,662	-

	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	-	-	-	1,045,957	65,878	1,111,836
Other comprehensive income	(38,210)	843	(37,367)	(37,367)	-	(37,367)
Comprehensive income	(38,210)	843	(37,367)	1,008,590	65,878	1,074,468
Dividends of surplus	-	-	-	(476,903)	(3,000)	(479,903)
Purchase of treasury shares	-	-	-	(169)	-	(169)
Share-based payment transactions	-	-	8,510	8,510	-	8,510
Total transactions with owners, etc.	-	-	8,510	(468,562)	(3,000)	(471,562)
Balance at September 30, 2021	348,265	3,763	458,691	15,384,792	1,572,843	16,957,635