



Disclaimer: This is a Japanese-English translation of the summary of financial statements of the Company produced for your convenience. Since no auditor audited this report, officially only the Japanese version is assumed to be the summary of financial statements of the Company. This summary does not constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on these statements. Should there be any discrepancy between the Japanese and English versions, the Japanese version is assumed to be correct.

October 12, 2021

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending May 31, 2022 <Japanese GAAP>

Listed company: INTER ACTION Corporation
 Listed stock exchange: Tokyo
 Securities code: 7725
 URL: <http://www.inter-action.co.jp>
 Representative: Nobuo Kiji, CEO & President
 Contact: Kaori Kawaguchi, Chief, Business Planning Team
 Telephone number: +81-45-263-9220
 Submission of quarterly report: October 13, 2021
 Dividend payment commencement date: –
 Preparation of explanatory materials for quarterly financial results: None
 Holding of a briefing on quarterly financial results: None

(Amounts of less than one million yen are truncated)

1. Consolidated Financial Results for the Cumulative First Quarter of the Fiscal Year Ending May 31, 2022 (June 1, 2021 to August 31, 2021)

(1) Consolidated operating results (Cumulative) (% figures show year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended August 31, 2021	1,720	31.7	429	118.7	434	122.1	286	97.7
Three months ended August 31, 2020	1,306	(28.2)	196	(57.9)	195	(57.5)	145	(50.3)

(Note) Comprehensive income: Three months ended August 31, 2021: ¥281 million / 97.2%
 Three months ended August 31, 2020: ¥142 million / -47.8%

	Profit per share		Profit per share—diluted	
	Yen		Yen	
Three months ended August 31, 2021	26.17		—	
Three months ended August 31, 2020	13.28		—	

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2021	11,183	8,959	80.1
As of May 31, 2021	11,564	9,038	78.2

(Reference) Shareholders' equity: As of August 31, 2021: ¥8,959 million
 As of May 31, 2021: ¥9,038 million

2. Dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2021	—	0.00	—	20.00	20.00
Fiscal year ending May 31, 2022	—				
Fiscal year ending May 31, 2022 (Forecast)		0.00	—	20.00	20.00

(Note) Amendment to forecasts of dividends recently announced: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending May 31, 2022 (June 1, 2021 to May 31, 2022)

(% figures show year-on-year change for the full year and quarter)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	6,803	2.6	1,871	6.8	1,806	3.3	1,189	2.6	108.64

(Note) 1. Amendment to forecasts of dividends recently announced: None

2. The Company has implemented an ESOP and Directors' stock compensation plan both in the form of stock benefit trusts. Accordingly, profit per share is calculated based on the average number of shares during the fiscal year, excluding the number of treasury shares, which includes Inter Action stock held by the stock benefit ESOP trust accounts and Directors' compensation stock benefit trust accounts.

*** Notes**

(1) Change in significant subsidiaries during three months ended August 31, 2021 (changes in specified subsidiaries affecting the scope of consolidation): None

New: - (Company name:) Excluded: - (Company name:)

(2) Application of special accounting for preparing quarterly consolidated financial statements: None

(3) Changes in accounting policies and estimates, and retrospective restatements

(i) Changes in accounting policies in accordance with revision of accounting standards: Yes

(ii) Changes in accounting policies other than item (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatements: None

(Note) For details, refer to “(3) Note regarding the quarterly consolidated financial statements (Changes in accounting policies)” under “2. Quarterly Consolidated Financial Statements and Notes” (page 9) of the Attached Materials.

(4) Number of shares issued (common stock)

(i) Number of shares outstanding at end of period (including treasury shares)

As of August 31, 2021	11,510,200 shares
As of May 31, 2021	11,510,200 shares

(ii) Number of treasury shares at end of period

As of August 31, 2021	572,738 shares
As of May 31, 2021	514,513 shares

(iii) Average number of shares during period

For the three months ended August 31, 2021	10,966,899 shares
For the three months ended August 31, 2020	10,932,417 shares

(Note) The Company has implemented an ESOP and Directors’ stock compensation plan both in the form of stock benefit trusts. Accordingly, treasury shares, as stated, include Inter Action stock held by the stock benefit ESOP trust accounts and Directors’ compensation stock benefit trust accounts.

* Quarterly financial results are not subject to auditing by a certified public accountant or an audit firm.

* Proper use of earnings forecasts, and other special matters

The above forecasts of consolidated financial results are based on certain assumptions on economic situation, market trends, etc. deemed to be reasonable when the forecasts were made. Consequently, actual results may differ from the forecasts due to a variety of future factors. For details of the above forecasts, refer to “(3) Explanation of forward-looking information including consolidated earnings forecasts” under “1. Qualitative Information on Quarterly Results” (page 4) of the Attached Materials.

[Attached Materials]

Index

1. Qualitative Information on Quarterly Results.....	2
(1) Explanation of operating results	2
(2) Explanation of financial position	4
(3) Explanation of forward-looking information including consolidated earnings forecasts	4
2. Quarterly Consolidated Financial Statements and Notes.....	5
(1) Quarterly consolidated balance sheets	5
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income.....	7
(Quarterly consolidated statements of income)	
June 1, 2021 – August 31, 2021	7
(Quarterly consolidated statements of comprehensive income)	
June 1, 2021 – August 31, 2021	8
(3) Note regarding the quarterly consolidated financial statements	9
(Notes on premise of going concern)	9
(Notes on significant changes in the amount of shareholders' equity)	9
(Changes in accounting policies)	9
(Additional information)	9
(Segment information)	11
(Revenue recognition-related information)	12
3. Supplementary explanation of consolidated financial results for the first quarter of the fiscal year ending May 31, 2022...	13
(1) Status of orders	13

1. Qualitative Information on Quarterly Results

(1) Explanation of consolidated operating results

The Inter Action Group conducts business in three segments: Internet of things related works; environmental energy related works; and promotion business of Industry 4.0. The business environment in each segment is as described below.

In the Internet of things related works segment, we manufacture inspection illuminators and pupil lens modules used for quality inspections in the image sensor production process and sell them to image sensor manufacturers.

Currently, in the image sensor market, there are a dozen or so manufacturers of image sensors, of which two companies, one Japanese and one Korean, account for about 60% of the market share. Aside from these existing makers, there have recently been moves by Chinese manufacturers to enter the business, which leads us to believe that the image sensor market will continue to expand.

The market for image sensors tends to hinge on the smartphone market since smartphones account for about 60-70% of image sensor applications. Smartphone shipment volume has been on the rise compared with the previous fiscal year, owing to such factors as stay-at-home demand amid the COVID-19 pandemic and the spread of 5G compatible devices. However, a shortage of semiconductors and other parts could constrain smartphone production volume going forward.

The increasing number of image sensors (cameras) installed per smartphone and the growing popularity of smartphones equipped with multiple image sensors (cameras) in recent years means that image sensor manufacturers will probably need to continue increasing production capacity.

In the short-term, demand remains focused on conventional image sensors that capture visible light in order to take photos and videos.

In the medium to long term, we anticipate demand to be driven by image sensors for use in ToF (time-of-flight) sensors and LiDAR (light detection and ranging) sensors, which aim to capture three-dimensional information, such as the distance between objects. Use of these sensors in smartphones is gaining momentum and an increase in demand can be expected with the development of various applications.

Over the long term, demand is expected to increase for image sensors that can capture three-dimensional information needed for self-driving vehicles and for industrial applications (machine-vision, surveillance cameras, etc.).

In the environmental energy related works segment, we manufacture and sell drying deodorizers used together with rotary presses (commercial printing presses) for large-volume printing and exhaust gas treatment systems for factories.

In the printing machinery industry, although new capital investment is diminishing due to the growing prevalence of information technologies, a certain number of rotary presses are replaced every year due to age-related degradation, and there is also demand for periodic maintenance. As there is minimal competition, the Inter Action Group is able to stably accommodate this demand at present. Due to the COVID-19 pandemic, customers' appetite for capital investment in new and large-scale projects remains subdued, but companies are gradually stepping up equipment replacements looking ahead to a post-COVID-19 future.

In the promotion business of Industry 4.0 segment, we mainly manufacture precision vibration isolation systems for removing vibrations that are a hindrance in the production process for displays and sell the systems to display manufacturers. We also manufacture testing systems for investigating whether gears are of the shape designed and sell them to gear manufacturers. In addition, as a new business for the Group, we are actively working to commercialize FA (factory automation) image processing and laser processing equipment-related businesses.

In the current flat panel and OLED display industries, appetite for investment has been sluggish among overseas customers in particular due to the impact of the COVID-19 pandemic, and the outlook remains uncertain.

Moreover, the gear testing systems market has essentially conformed to conditions of the machine tools market and is susceptible to economic fluctuations. Market conditions temporarily fell to an extent exceeding the global financial crisis due to the COVID-19 pandemic, but there have been signs of a gradual recovery centered on domestic auto manufacturers and in overseas (emerging country) industries.

In our new business related to FA image processing, we have developed and commercialized a gear inspection device that can automatically detect defective products based on images taken of small scratches that occur during the manufacturing process of metal gears. We began selling it through our subsidiary Tokyo Technical Instruments

in November 2020, and have received high praise and numerous inquiries from the customers. In the future, with the intention of completely automating gear inspections, we will introduce robots that pick up gears through to inspection systems, and continue to expand product sales while investigating use in applications outside the gear field.

As for the laser processing machines-related business, which is also a new business, in the field of micromachining using lasers, we have proposed short-pulse laser ablation technology (processing that reduces thermal damage to materials by irradiating light for short periods of time) to businesses involved in ceramic processing, and have received inquiries from multiple companies. While continuing to approach companies that handle ceramics and other hard-to-process materials, we have launched a joint study with Nagasaki University in August 2021, as part of our program to conduct tests with a view to applying semiconductor manufacturing to a range of processing applications. In recent years, attention has been drawn to next-generation power semiconductors using such materials as SiC (silicon carbide) that can reduce power losses and withstand high voltages. In the joint research, the focus is to conduct research on efficient methods of processing SiCs and other highly brittle materials with the objective of developing a new processing equipment. The research period is scheduled to run until March 31, 2024.

As a result of these business activities, net sales for the first quarter of the consolidated fiscal year under review increased by 31.7% to 1,720 million yen (in comparison with 1,306 million yen in the previous fiscal year); gross profit rose by 54.1% to 853 million yen (in comparison with 554 million yen in the previous fiscal year), largely due to the increase in net sales; operating income rose by 118.7% to 429 million yen (in comparison with 196 million yen in the previous fiscal year); ordinary income rose by 122.1% to 434 million yen (in comparison with 195 million yen in the previous fiscal year); and profit attributable to owners of parent after income taxes increased by 97.7% to 286 million yen (in comparison with 145 million yen of profit attributable to owners of parent in the previous fiscal year).

The overall performance of each business segment was as follows.

(Internet of things related works)

Net sales and profits both recorded year-on-year increases. This can be attributed to the robust sales performance at image sensor manufacturers, the Company's main customers, particularly of products for their domestic customers.

With respect to sales of inspection illuminators to Japanese customers, results in the previous fiscal year were affected by the low level of customer investment appetite due to factors such as trade friction between the US and China. In the current fiscal year, however, uncertainty caused by the trade friction has eased, leading to a substantial year-on-year increase in net sales. In the first quarter of the consolidated fiscal year under review, net sales of inspection illuminators to Japanese customers exceeded annual net sales of the same to Japanese customers in the previous fiscal year.

Regarding the status of sales of inspection illuminators to overseas customers, net sales were firm, as customers continued to strengthen their production capacity. Still, we view trends in customer investment trend to be uncertain given restrictions on making customer visits, as well as a disruption in the supply chain with manufacturers of semiconductors and other components experiencing a shortage of materials.

With respect to full-scale introduction of pupil lens modules at major overseas customers, verification by customers continues. We are working toward an early introduction, maintaining close exchange of information with customers.

During the first quarter of the consolidated fiscal year under review, net sales to this segment's external customers increased by 68.4% year on year to 1,258 million yen (in comparison with 747 million yen in the previous fiscal year), and segment income increased by 83.6% to 652 million yen (in comparison with 355 million yen in the previous fiscal year).

(Environmental energy related works)

The trend of the previous fiscal year continued as customers remained reluctant toward making new capital investment in printing press-related drying deodorizers given sluggish advertising demand amid the pandemic. As a result, year-on-year decreases were recorded in both net sales and profits. However, a gradual increase was observed in customer projects for existing facility replacements that looked ahead at a post-COVID-19 future, leading to year-on-year increases in orders and order backlog.

Exhaust gas treatment systems continued to face the impact of the pandemic, but customer demand for existing equipment replacement has been gradually recovering and several large-scale projects have been progressing.

Going forward, we will focus our efforts on marketing upgrade and replacement of existing facilities, which have a low investment hurdle for customers, and on promoting the development of a failure prediction system that uses acoustic emission sensors (sensors that detect sound and vibration waves).

During the first quarter of the consolidated fiscal year under review, net sales to this segment's external customers fell by 27.4% to 159 million yen (in comparison with 219 million yen in the previous fiscal year), and segment income fell by 81.3% to 1 million yen (in comparison with 8 million yen in the previous fiscal year).

(Promotion business of Industry 4.0)

In precision vibration isolation systems, certain products for the Japanese market saw buoyant sales, but net sales of products for overseas markets were sluggish as we proceeded to rebuild the sales structure of overseas subsidiaries. As a result, both net sales and profits decreased year on year. Meanwhile, there have been reports that overseas customers, who have been suspending their capital investment, are expected to resume investment from around the year-end, suggesting a gradual increase in demand.

Development of new products is making progress as planned, and is currently in the prototype evaluation stage. We will continue to push forward with the creation of sales structure and development of new products, while paying attention to trends in overseas customers' capital investment.

In gear testing systems, gear demand for automotive and industrial robot applications increased both in Japan and overseas, and market conditions for the gear manufacturing industry showed a recovery trend. Product sales also remained firm compared with the previous fiscal year, with increases recorded in net sales, orders received and order backlog.

Regarding the new FA image processing systems, we completed delivery of the devices for which orders were received in the previous fiscal year, and earned high praise from the customers. With inquiries coming from automakers and several other companies, we will continue to focus efforts on expanding sales of new products and enhancing product competitiveness.

During the first quarter of the consolidated fiscal year under review, net sales to this segment's external customers decreased by 10.8% to 302 million yen (in comparison with 339 million yen in the previous fiscal year), and the segment recorded a loss of 37 million yen (in comparison with profit of 17 million yen in the previous fiscal year).

(2) Explanation of financial position

As of the end of the first quarter of the consolidated fiscal year under review, net assets amounted to 11,183 million yen, a decrease of 380 million yen in comparison to the end of the previous consolidated fiscal year.

Current assets amounted to 9,818 million yen, a decrease of 327 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to a 980 million yen decline in cash and deposits, despite a 574 million yen rise in electronically recorded monetary claims—operating.

Non-current assets amounted to 1,365 million yen, a decrease of 52 million yen in comparison to the end of the previous consolidated fiscal year.

As of the end of the first quarter of the consolidated fiscal year under review, liabilities amounted to 2,224 million yen, a decrease of 301 million yen in comparison to the end of the previous consolidated fiscal year. This is mainly attributable to a decrease of 324 million yen in income taxes payable.

As of the end of the first quarter of the consolidated fiscal year under review, total assets amounted to 8,959 million yen, a decrease of 78 million yen in comparison to the amount held at the end of the previous consolidated fiscal year. This is mainly attributable to year-end dividends in the previous fiscal year of 225 million yen and an increase of 135 million yen in treasury shares, despite having recorded profit attributable to owners of parent of 286 million yen.

(3) Explanation of forward-looking information including consolidated earnings forecasts

There is no amendment to consolidated earnings forecasts disclosed on July 12, 2021.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Unit: Thousands of yen)

	As of May 31, 2021	As of August 31, 2021
Assets		
Current assets		
Cash and deposits	7,224,091	6,243,325
Notes and accounts receivable–trade	675,519	721,660
Electronically recorded monetary claims–operating	754,129	1,328,949
Operational investment securities	38,077	36,090
Merchandise and finished goods	148,305	156,441
Work in process	797,317	822,693
Raw materials and supplies	466,966	459,035
Other	69,290	93,179
Allowance for doubtful accounts	(27,308)	(42,813)
Total current assets	10,146,389	9,818,563
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	283,370	278,127
Land	165,149	165,149
Other, net	220,138	207,096
Total property, plant and equipment	668,658	650,372
Intangible assets		
Goodwill	234,725	222,514
Other	37,392	35,150
Total intangible assets	272,117	257,665
Investments and other assets		
Investment securities	130,423	130,410
Other	427,901	407,920
Allowance for doubtful accounts	(80,967)	(80,976)
Total investments and other assets	477,356	457,354
Total non-current assets	1,418,133	1,365,393
Total assets	11,564,522	11,183,956

(Unit: Thousands of yen)

	As of May 31, 2021	As of August 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable–trade	360,701	376,755
Short-term borrowings	210,000	200,000
Current portion of bonds	60,000	60,000
Current portion of long-term borrowings	144,815	126,463
Income taxes payable	476,487	151,773
Provision for bonuses	—	37,419
Provision for product warranties	23,887	22,704
Provision for director stock benefits	194,300	242,700
Other	304,022	312,409
Total current liabilities	1,774,214	1,530,225
Non-current liabilities		
Bonds payable	30,000	—
Long-term borrowings	593,856	567,536
Provision for stock benefits	3,842	4,026
Net defined benefit liability	97,941	93,561
Asset retirement obligations	10,150	10,150
Other	16,515	19,326
Total non-current liabilities	752,305	694,600
Total liabilities	2,526,520	2,224,826
Net assets		
Shareholders' equity		
Capital stock	1,760,299	1,760,299
Capital surplus	3,352,855	3,352,855
Retained earnings	4,826,850	4,888,598
Treasury shares	(892,028)	(1,027,081)
Total shareholders' equity	9,047,977	8,974,672
Accumulated other comprehensive income		
Foreign currency translation adjustment	(9,976)	(15,542)
Total accumulated other comprehensive income	(9,976)	(15,542)
Total net assets	9,038,001	8,959,130
Total liabilities and net assets	11,564,522	11,183,956

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(June 1, 2021 – August 31, 2021)

(Unit: Thousands of yen)

	Three months ended August 31, 2020	Three months ended August 31, 2021
Net sales	1,306,284	1,720,527
Cost of sales	752,131	866,839
Gross profit	554,152	853,688
Selling, general and administrative expenses	357,608	423,796
Operating income	196,544	429,891
Non-operating income		
Interest income	264	117
Dividend income	50	50
Income from assets for rent	3,204	2,319
Subsidy income	2,709	3,255
Other	1,900	5,477
Total non-operating income	8,128	11,220
Non-operating expenses		
Interest expenses	2,037	2,275
Expenses of assets for rent	2,548	2,544
Foreign exchange losses	3,250	125
Share of loss of entities accounted for using equity method	474	259
Other	584	1,096
Total non-operating expenses	8,894	6,302
Ordinary income	195,777	434,809
Extraordinary income		
Gain on sale of non-current assets	—	96
Total extraordinary income	—	96
Extraordinary losses		
Loss on retirement of non-current assets	7,346	—
Total extraordinary losses	7,346	—
Profit before income taxes	188,431	434,906
Income taxes—current	54,375	134,885
Income taxes—deferred	(11,122)	13,069
Total income taxes	43,253	147,954
Profit	145,178	286,952
Profit attributable to owners of parent	145,178	286,952

(Quarterly consolidated statements of comprehensive income)
 (June 1, 2021 – August 31, 2021)

(Unit: Thousands of yen)

	Three months ended August 31, 2020	Three months ended August 31, 2021
Profit	145,178	286,952
Other comprehensive income		
Foreign currency translation adjustment	(2,325)	(5,560)
Share of other comprehensive income of entities accounted for using equity method	(145)	(6)
Total other comprehensive income	(2,470)	(5,566)
Comprehensive income	142,707	281,385
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	142,707	281,385
Comprehensive income attributable to non-controlling interests	—	—

(3) Note regarding the quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Notes on significant changes in the amount of shareholders' equity)

A major change in the first quarter of the consolidated fiscal year under review is acquisition of treasury shares through repurchase of 58,200 shares (134,986,000 yen) in accordance with the resolution of the Board of Directors passed at its meeting held on July 12, 2021.

As a result, treasury shares increased by 135,052,000 yen to 1,027,081,000 yen as of the end of the first quarter of the consolidated fiscal year under review.

(Changes in accounting policies)

(Application of accounting standard for revenue recognition and related guidance)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereafter "Accounting Standard for Revenue Recognition") from the beginning of the first quarter of the consolidated fiscal year under review. Accordingly, revenue is recognized at a point in time when control of promised goods or services is transferred to customers, at the amount that is expected to be received in exchange for the goods or services. There is no change in accounting treatment associated with the foregoing.

The adoption described above had no effect on profit and loss for the first quarter of the consolidated fiscal year under review, and no effect on the balance of retained earnings at the beginning of the fiscal year under review.

Furthermore, as permitted by the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), disaggregated information on revenue from contracts with customers during the first quarter of the previous consolidated fiscal year has not been disclosed.

(Application of accounting standard for fair value measurement and related guidance)

The Group has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereafter "Accounting Standard for Fair Value Measurement") and related guidance from the beginning of the first quarter of the consolidated fiscal year under review. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the new accounting policy prescribed by the Accounting Standard for Fair Value Measurement and related guidance will be applied into the future.

This will have no impact on the quarterly consolidated financial statements.

(Additional information)

(Stock benefit trust system that delivers company shares to employees through the trust)

1. Overview of transactions

The Company has adopted an incentive plan "Employee Stock Ownership Plan (J-ESOP)" (hereinafter, "the System") for employees that offers them a stake in the Company's shares. We hope this will help to enhance employee motivation and morale, and thereby the Company's stock price and performance, by increasing the correlation between our stock price, business performance, and the treatment of employees, and sharing the economic effects with our shareholders.

The system is a mechanism for distributing the Company's shares to employees that meet certain criteria in accordance with the stock benefit regulations established in advance by the Company. The Company will award employees points according to their personal contribution, etc. and distribute shares equivalent to the points awarded when the entitlement is gained under certain conditions.

2. Shares of the company remaining in trust

Company shares remaining in trust are to be recorded at book value as "treasury shares" (excluding the amount of incidental costs) under net assets. At the end of the previous fiscal year and at the end of the first quarter of the consolidated fiscal year under review, the treasury shares in question had a book value of 13,736,000 yen (27,400 shares).

(A performance-linked stock compensation system that distributes the company's shares via a trust to the directors)

1. Overview of transactions

We have adopted a “Board Benefit Trust” (hereinafter, “BBT”) that awards the Company’s shares to directors. The purpose of the BBT is to further clarify the correlation between the remuneration of directors and the Company’s performance and stock value. We hope this will not only contribute to boosting the stock price, but also contribute to increasing awareness of the importance of improving earnings and expanding corporate value over the longer term by sharing the risk of stock price downside with shareholders.

In the BBT system, the Company’s stock is acquired through a trust using funds contributed by the Company. The BBT is a performance-based stock compensation plan in which the Company’s stock is paid annually through a trust based on points granted to directors in accordance with their position and performance based on the director stock benefit regulations established by the Board of Directors.

2. Shares of the company remaining in trust

Company shares remaining in trust are to be recorded at book value as “treasury shares” (excluding the amount of incidental costs) under net assets. At the end of the previous fiscal year and at the end of the first quarter of the consolidated fiscal year under review, the treasury shares in question had a book value of 684,166,000 yen (237,128 shares).

(Implications of COVID-19 for accounting estimates)

We have made no significant change in our assumptions for when the COVID-19 pandemic might be contained from those announced in “Implications of COVID-19 for accounting estimates” in the “Additional information” section of our securities report for the fiscal year ended May 31, 2021.

(Segment information)

I. For the first quarter of the fiscal year ended May 31, 2021 (June 1, 2020 to August 31, 2020)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	747,566	219,068	339,649	1,306,284
Intra-segment internal sales and transfer amount	—	—	—	—
Total	747,566	219,068	339,649	1,306,284
Segment income (loss)	355,665	8,447	(17,556)	346,556

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	346,556
Company-wide expenses ^(Note)	(139,129)
Inter-segment eliminations	117
Adjustment of inventories	(10,999)
Operating income in the quarterly consolidated statements of income	196,544

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

II. For first quarter of the fiscal year ending May 31, 2022 (June 1, 2021 to August 31, 2021)

1. Information on net sales and the amount of profits (losses) by reportable segment

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Net sales				
Sales to external customers	1,258,587	159,030	302,910	1,720,527
Intra-segment internal sales and transfer amount	—	—	—	—
Total	1,258,587	159,030	302,910	1,720,527
Segment income (loss)	652,967	1,581	(37,692)	616,855

2. Difference between total amount of income or loss of reportable segments and the corresponding amount reported in the quarterly consolidated statements of income, and the key components of such difference (reconciliation)

(Unit: Thousands of yen)

Income	Amount
Total of reportable segments	616,855
Company-wide expenses ^(Note)	(178,308)
Inter-segment eliminations	96
Adjustment of inventories	(8,752)
Operating income in the quarterly consolidated statements of income	429,891

(Note) Company-wide expenses mainly consist of expenses incurred by the Company's head office administrative operations that are not attributable to the reportable segments.

3. Information on impairment loss for non-current assets or goodwill of each reportable segment

No items to report.

(Revenue recognition-related information)

Disaggregated information on revenue from contracts with customers

For first quarter of the fiscal year ending May 31, 2022 (June 1, 2021 to August 31, 2021)

(Unit: Thousands of yen)

	Internet of things related works	Environmental energy related works	Promotion business of Industry 4.0	Total
Goods transferred at a point in time	1,258,587	159,017	302,910	1,720,514
Goods transferred over time	—	—	—	—
Revenue from contracts with customers	1,258,587	159,017	302,910	1,720,514
Other revenue	—	13	—	13
Sales to external customers	1,258,587	159,030	302,910	1,720,527

(Note) Other revenue is that recognized in "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan (ASBJ) Statement No. 10).

3. Supplementary explanation of consolidated financial results for the first quarter of the fiscal year ending May 31, 2022

(1) Status of orders

1) Orders received

Segment	1Q of the previous consolidated fiscal year (June 1, 2020 to August 31, 2020)		1Q of the current consolidated fiscal year (June 1, 2021 to August 31, 2021)		Change	
	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)	Amount of orders received (Thousands of Yen)	Backlog of orders (Thousands of Yen)
Internet of things related works	1,446,946	2,067,994	1,250,747	1,700,471	(196,199)	(367,523)
Environmental energy related works	172,990	339,259	271,331	393,823	98,341	54,564
Promotion business of Industry 4.0	233,835	66,904	330,254	244,278	96,419	177,374
Total	1,853,772	2,474,158	1,852,334	2,338,573	(1,438)	(135,584)

(Notes) 1. Consumption taxes are not included in the above amounts.

2. The above amounts do not include results of the operations which engage in make-to-stock production.