



**Summary of Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending August 31, 2022
(Nine Months Ended May 31, 2022)**

[Japanese GAAP]

July 14, 2022

Company name: SERAKU Co., Ltd. Listing: Tokyo Stock Exchange (Prime Market)
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 Scheduled date of filing of Quarterly Report: July 15, 2022
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter Ended May 31, 2022 (Sep. 1, 2021 to May 31, 2022)

(1) Consolidated results of operations (Percentages represent year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended May 31, 2022	13,123	16.0	695	(39.9)	1,132	(28.4)	717	(25.5)
Nine months ended May 31, 2021	11,313	12.0	1,155	55.7	1,582	111.7	963	107.8

Note: Comprehensive income (millions of yen) Nine months ended May 31, 2022: 716 (down 25.5%)
 Nine months ended May 31, 2021: 961 (up 112.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended May 31, 2022	51.53	51.24
Nine months ended May 31, 2021	69.82	69.18

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of May 31, 2022	9,682	5,265	54.3
As of Aug. 31, 2021	8,730	4,616	52.8

Reference: Shareholders' equity (millions of yen) As of May 31, 2022: 5,259 As of Aug. 31, 2021: 4,612

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Aug. 31, 2021	-	0.00	-	5.60	5.60
Fiscal year ending Aug. 31, 2022	-	0.00	-	-	-
Fiscal year ending Aug. 31, 2022 (forecast)	-	-	-	8.60	8.60

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending August 31, 2022 (Sep. 1, 2021 to Aug. 31, 2022)

(Percentages represent year on year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	17,800	16.6	860	(36.6)	1,400	(23.8)	910	(26.7)	65.33

Note: Revisions to the most recently announced consolidated earnings forecast: Yes

* Notes

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

Newly added: - Excluded: -

(2) Application of special accounting methods in the preparation of the quarterly consolidated financial statements: None

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

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of shares issued (common shares)

1) Number of shares issued as of the end of the period (including treasury shares)

As of May 31, 2022:	13,940,000 shares	As of Aug. 31, 2021:	13,902,400 shares
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2) Number of treasury shares as of the end of the period

As of May 31, 2022:	130 shares	As of Aug. 31, 2021:	130 shares
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3) Average number of shares during the period

Nine months ended May 31, 2022:	13,923,466 shares	Nine months ended May 31, 2021:	13,800,333 shares
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* The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts and other special items

Forecasts of future performance in these materials are based on assumptions judged to be reasonable and information available to the management of Seraku at the time these materials were prepared and do not represent guarantees of future performance. Actual results may differ materially from these forecasts for various reasons. For discussion of the assumptions and other factors considered by Seraku in preparing the above projections, please refer to page 4 of the attachments 1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first nine months of the fiscal year under review, the Japanese economy was on a moderate recovery thanks to the easing of the difficult circumstances caused by the COVID-19 pandemic. However, the situation remained uncertain, given upward pressure imposed by rising resource prices attributable to the deterioration of the Ukraine crisis and the weakening of the yen associated with the widening gap in interest rates between Japan and the United States, in addition to slowing economic recoveries due to interest hikes following the tightening of monetary policy undertaken primarily in the United States, and the downside economic risks attributable to production constraints and product shortages linked to China's zero-COVID policy.

In Japan's IT sector, which is the primary business field where the Group provides its services, investor confidence in IT continues to be strong, reflecting the rapid expansion of the digital economy, and demand for IT investment associated with an increase in digital transformation (DX) using advanced technologies such as cloud computing, AI, IoT, big data, and RPA will likely remain strong. An optimal IT infrastructure plays an important role in supporting companies' business strategies, and the need for recruiting and cultivating high-quality IT engineers to respond to corporate demand is increasing.

In this environment, the Group sought to enhance the value of its services by actively recruiting and cultivating high-quality engineers. The Group also continued to focus on increasing share in the agricultural IT sector through Midori Cloud, which is intended to introduce digital transformation (DX) in primary industry.

As a result, the Group's net sales increased 16.0% year on year, to 13,123,005 thousand yen, operating profit fell 39.9 % year on year, to 695,229 thousand yen, and ordinary profit declined 28.4 % year on year, to 1,132,943 thousand yen. Profit attributable to owners of parent decreased 25.5% year on year, to 717,507 thousand yen.

Results by business segment were as follows.

With the addition of Midori Cloud as a reportable segment in the first quarter of the fiscal year under review, the reportable segments have been changed from the conventional three segments, including System Integration, Digital Transformation, and Mechanical Design and Engineering, to four segments consisting of System Integration, Digital Transformation, Midori Cloud, and Mechanical Design and Engineering. Accordingly, in the year-on-year comparisons below, the figures for the same period of the previous year have been restated to reflect the new segment classification.

1) System Integration

In the system Integration segment, we are promoting support for IT technologies in the existing technical domain, while providing a broad array of services, including IT infrastructure and cloud technologies, business domains with long-term stability, digital creative services, web operations, web system development.

In the first nine months under review, as we expected to continue winning projects successfully, primarily in the fields of system development and operation, IT infrastructure design and building, and project management, we focused on recruitment. We also actively expanded the use of external resources, strengthening cooperation with business partners. The Seraku Group (the "Group") focused its efforts on developing human resources by utilizing a project room for training with equipment that faithfully recreates actual workplaces, enabling inexperienced engineers to quickly develop the skills to be operational.

Net sales in this segment came to 9,532,454 thousand yen, up 18.4% year on year. Segment profit was 513,051 thousand yen, down 37.1% year on year.

2) Digital Transformation

The Digital Transformation business provides services such as cyber security to protect companies' information assets and customer success solutions centering on support for the widespread use of Salesforce.

In the first nine months under review, the Group focused its efforts on recruiting engineers because demand was

expected to continue growing in each technological area. In doing so, it strengthened the organizational structure.

In the customer success solution business, the Group worked to respond to an increase in composite demand for support for the widespread use of solutions including the Pardot B2B marketing tool and the Tableau analysis platform, while also boosting demand for support for the widespread use of Salesforce as usual. At the same time, it facilitated collaboration with NTT DATA Corporation and Resona Digital Hub Co., Ltd, among other companies. Through these efforts, it is in the process of further expanding this service.

Net sales in this segment came to 2,940,397 thousand yen, up 8.1% year on year. Segment profit was 245,179 thousand yen, down 28.5% year on year.

3) Midori Cloud

The Midori Cloud business provides a platform service, including Midori Cloud and Farm Cloud, to support the DX of the agriculture, livestock, and fisheries sectors using IT and a solution service to solve individual issues, particularly those faced in primary industries. It also conducts research and development to add value to platforms.

In the first nine months under review, in the platform service, the Group bolstered alliances with sales agents, while in the solution service, it took steps to strengthen the development system by actively recruiting engineers to expand business with a view toward business expansion going forward.

Net sales in this segment amounted to 252,222 thousand yen, up 25.9% year on year. The segment loss was 47,472 thousand yen (segment loss of 37,258 thousand yen in the same period of the previous year).

4) Mechanical Design and Engineering

In the Mechanical Design and Engineering business, P's Engineering, a consolidated subsidiary, provides 3D CAD technologies, designs machines, dies and other items for the corporate sector, and provides technologies for the quality control of experiments and performance tests as well as those for communications system construction and telecommunications.

In the first nine months under review, a gradual recovery in demand was seen despite the impact of the COVID-19 pandemic on the market. The company expects to continue to win projects and actively recruit and cultivate human resources to expand its corporate size.

Net sales in the Mechanical Design and Engineering segment were 415,070 thousand yen, up 19.1% year on year. Segment loss was 12,521 thousand yen (segment profit of 35,179 thousand yen in the same period of the previous year).

5) Others

This segment is the operations of consolidated subsidiary Seraku ECA, which is primarily engaged in paid job placement and temporary staffing services and services for training IT engineers.

The Group will move forward with initiatives to review how it should deal with the business going forward.

This resulted in zero net sales in this segment (segment net sales of 2,835 thousand yen in the same period of the previous fiscal year). Segment loss was 3,008 thousand yen (segment loss in the same period of the previous year was 925 thousand yen.)

(2) Explanation of Financial Position

Assets

Total assets increased 951,645 thousand yen from the end of the previous fiscal year to 9,682,326 thousand yen as of the end of the third quarter of the fiscal year under review. This was a result primarily of increases of 421,163 thousand yen in cash and deposits, 271,120 thousand yen in notes and accounts receivable - trade, and contract assets ("notes and accounts receivable - trade" in the previous fiscal year), 154,270 thousand yen in deferred tax assets, 72,401 thousand yen in other investments and other assets, 56,195 thousand yen in other current assets, and 22,810 thousand yen in leasehold and guarantee deposits, which more than offset a decreases of 43,267 thousand yen in work in process.

Liabilities

Total liabilities increased 302,894 thousand yen from the end of the previous fiscal year to 4,417,287 thousand yen as of the end of the third quarter of the fiscal year under review. The increase reflected increases of 945,752 thousand yen in accounts payable - other, 350,005 thousand yen in the current portion of long-term borrowings, 22,416 thousand yen in accrued consumption taxes and 17,643 thousand yen in accounts payable - trade, which more than offset decreases of 600,000 thousand yen in long-term borrowings, 307,188 thousand yen in provision for bonuses and 110,701 in income taxes payable.

Net assets

Total net assets increased 648,750 thousand yen from the end of the previous fiscal year to 5,265,039 thousand yen as of the end of the third quarter of the fiscal year under review. This increase was attributable chiefly to an increase of 645,915 thousand yen in retained earnings.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

The consolidated earnings forecasts that were announced on October 15, 2021 have been revised. For details, please refer to "Notice Concerning Revision of Full-Year Consolidated Earnings Forecasts for the fiscal year ending August 31, 2022" announced on July 14, 2022.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY8/21 (As of Aug. 31, 2021)	Third Quarter of FY8/22 (As of May 31, 2022)
Assets		
Current assets		
Cash and deposits	5,458,007	5,879,170
Notes and accounts receivable - trade	1,821,004	—
Notes and accounts receivable - trade, and contract assets	—	2,092,124
Work in process	50,805	7,537
Raw materials	44,965	47,775
Other	123,989	180,185
Allowance for doubtful accounts	(2,640)	(1,914)
Total current assets	7,496,131	8,204,879
Non-current assets		
Property, plant and equipment		
Buildings, net	155,617	152,096
Tools, furniture and fixtures, net	41,651	36,292
Other	2,621	9,410
Total property, plant and equipment	199,891	197,799
Intangible assets		
Goodwill	15,968	9,124
Software	4,487	2,338
Other	1,729	1,662
Total intangible assets	22,185	13,125
Investments and other assets		
Investment securities	118,454	123,019
Deferred tax assets	397,232	551,502
Leasehold and guarantee deposits	232,343	255,154
Other	264,443	336,845
Total investments and other assets	1,012,473	1,266,521
Total non-current assets	1,234,549	1,477,446
Total assets	8,730,681	9,682,326

	(Thousands of yen)	
	FY8/21 (As of Aug. 31, 2021)	Third Quarter of FY8/22 (As of May 31, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	111,077	128,720
Current portion of long-term borrowings	255,570	605,575
Accounts payable - other	1,201,641	2,147,393
Income taxes payable	397,595	286,893
Accrued consumption taxes	315,362	337,779
Provision for bonuses	757,781	450,592
Provision for loss on order received	9,379	899
Other	186,645	178,533
Total current liabilities	3,235,052	4,136,388
Non-current liabilities		
Long-term borrowings	750,000	150,000
Retirement benefit liability	127,163	121,036
Other	2,177	9,861
Total non-current liabilities	879,340	280,898
Total liabilities	4,114,392	4,417,287
Net assets		
Shareholders' equity		
Share capital	304,085	305,266
Capital surplus	501,835	503,016
Retained earnings	3,805,677	4,451,592
Treasury shares	(199)	(199)
Total shareholders' equity	4,611,398	5,259,675
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,051	54
Remeasurements of defined benefit plans	(163)	(40)
Total accumulated other comprehensive income	888	13
Share acquisition rights	4,001	5,349
Total net assets	4,616,288	5,265,039
Total liabilities and net assets	8,730,681	9,682,326

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(First Nine-month Period)**

(Thousands of yen)

	First nine months of FY8/21 (Sep. 1, 2020 – May 31, 2021)	First nine months of FY8/22 (Sep. 1, 2021 – May 31, 2022)
Net sales	11,313,064	13,123,005
Cost of sales	8,512,739	10,180,071
Gross profit	2,800,324	2,942,934
Selling, general and administrative expenses	1,644,396	2,247,705
Operating profit	1,155,928	695,229
Non-operating income		
Interest income	1,199	1,200
Subsidy income	417,812	434,964
Other	11,151	4,329
Total non-operating income	430,162	440,494
Non-operating expenses		
Interest expenses	3,094	2,780
Miscellaneous loss	1	—
Total non-operating expenses	3,096	2,780
Ordinary profit	1,582,995	1,132,943
Extraordinary income		
Gain on reversal of share acquisition rights	141	—
Total extraordinary income	141	—
Extraordinary losses		
Loss on retirement of non-current assets	571	124
Loss on valuation of investment securities	13,185	5,996
Total extraordinary losses	13,757	6,121
Profit before income taxes	1,569,379	1,126,822
Income taxes-current	701,480	565,961
Income taxes-deferred	(95,609)	(156,647)
Total income taxes	605,871	409,314
Profit	963,508	717,507
Profit attributable to owners of parent	963,508	717,507

Quarterly Consolidated Statement of Comprehensive Income
(First Nine-month Period)

	(Thousands of yen)	
	First nine months of FY8/21 (Sep. 1, 2020 – May 31, 2021)	First nine months of FY8/22 (Sep. 1, 2021 – May 31, 2022)
Profit	963,508	717,507
Other comprehensive income		
Valuation difference on available-for-sale securities	1,071	(997)
Remeasurements of defined benefit plans, net of tax	(2,735)	122
Total other comprehensive income	(1,663)	(874)
Comprehensive income	961,844	716,632
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	961,844	716,632

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Additional Information

Impact of the spread of the COVID-19 pandemic on accounting estimates

The COVID-19 pandemic is having an enormous impact on the global economy and the activities of companies. The outlook for the Japanese economy will probably remain unclear for some time. Regarding the impact of this crisis on the performance of the Group, there is no significant change at this time in the “Impact of the spread of the COVID-19 pandemic on accounting estimates” which was presented in additional information in the summary of consolidated financial results for the fiscal year ended August 31, 2021.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Adoption of the Accounting Standard for Revenue Recognition

The Company has decided to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the “Revenue Recognition Accounting Standard”), etc. from the beginning of the first quarter of the fiscal year under review and recognize revenue from goods or services which the Company promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer.

As a result, revenue recognition for contracts, under which obligations are fulfilled over a certain period of time, among contracts under which, in the past, revenue was recognized at the point when contracts with customers were completed, has been changed to a method of recognizing revenue over a certain period of time based on estimated progress in fulfilling performance obligations. Revenue under those contracts for which a reasonable estimation of progress is not possible and the cost of fulfilling performance obligations is expected to be recovered is recognized using the cost recovery method. The alternative treatment approved under revenue recognition accounting and other standards applies to projects in which the period between the first day of transactions and the expected date of fulfillment of performance obligations is very short. In this case, revenue is not recognized over a certain period of time, but when performance obligations are completely fulfilled.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in case of retroactively applying the new accounting policy to before the beginning of the first quarter of the fiscal year under review are adjusted in retained earnings at the beginning of the first quarter of the fiscal year under review, and the new accounting policy is applied from this initial balance. However, applying the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard, the Company does not retroactively apply the new accounting policy to the contracts almost all of whose revenue was recognized in compliance with the conventional method before the beginning of the first quarter of the fiscal year under review. In addition, we account for all contract changes made prior to the beginning of the first quarter under review by applying the method prescribed in (1) of Paragraph 86 of the Revenue Recognition Accounting Standard based on the contract terms, after reflecting all contract changes, and added or subtracted their cumulative effect to or from retained earnings at the beginning of the first quarter under review.

As a result, net sales increased 45,173 thousand yen, cost of sales increased 32,781 thousand yen, and operating profit, ordinary profit, and profit before income taxes increased 21,414 thousand yen each for the third quarter of the fiscal year under review. Balance of retained earnings at the beginning of the period rose 6,260 thousand 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 breaks down revenue from contracts with customers for the first nine 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 issued on July 4, 2019, hereinafter the “Fair Value Measurement Accounting Standard”) and related measures at the beginning of the first quarter under review. Accordingly, the Company will apply the new accounting policies prescribed in the Fair Value Measurement Accounting Standard and related measures in the future in accordance with the transitional handling stipulated in Section 19 of the same standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019). This application has no impact on quarterly consolidated financial statements.

Segment and Other Information

Segment information

First nine months of FY8/21 (Sep. 1, 2020 – May 31, 2021)

Information related to net sales and profit/loss in reportable segments

(Thousands of yen)

	Reportable segment					Other (Note 1)	Total	Adjustment (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
	System Integration	Digital Transfor- mation	Midori Cloud	Mechanical Design and Engineering	Total				
Net sales									
Sales to external customers	8,048,852	2,720,337	200,261	341,576	11,311,028	2,035	11,313,064	–	11,313,064
Inter-segment sales and transfers	–	–	–	6,947	6,947	800	7,747	(7,747)	–
Total	8,048,852	2,720,337	200,261	348,523	11,317,975	2,835	11,320,811	(7,747)	11,313,064
Segment profit (loss)	815,815	343,116	(37,258)	35,179	1,156,853	(925)	1,155,928	–	1,155,928

- Notes: 1. The “Other” business segment consists of activities that are not included in any of the reportable segments, and is primarily engaged in job placement and temporary staffing services and services for training IT engineers.
2. The adjustment to segment profit (loss) includes corporate costs that are not allocated to any of the reportable segments. Corporate costs mainly include general and administrative expense that cannot be attributed to any of the reportable segments. The adjustment to segment profit (loss) includes inter-segment transaction elimination of 7,747 thousand yen.
3. Segment profit (loss) is adjusted with operating profit shown on the quarterly consolidated statement of income.

First nine months of FY8/22 (Sep. 1, 2021 – May 31, 2022)

1. Information related to net sales and profit/loss in reportable segments

(Thousands of yen)

	Reportable segment					Other (Note 1)	Total	Adjustment (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
	System Integration	Digital Transfor- mation	Midori Cloud	Mechanical Design and Engineering	Total				
Net sales									
Sales to external customers	9,532,454	2,940,397	252,222	397,931	13,123,005	—	13,123,005	—	13,123,005
Inter-segment sales and transfers	—	—	—	17,139	17,139	—	17,139	(17,139)	—
Total	9,532,454	2,940,397	252,222	415,070	13,140,144	—	13,140,144	(17,139)	13,123,005
Segment profit (loss)	513,051	245,179	(47,472)	(12,521)	698,238	(3,008)	695,229	—	695,229

Notes: 1. The “Other” business segment consists of activities that are not included in any of the reportable segments, and is primarily engaged in job placement and temporary staffing services and services for training IT engineers.

2. The adjustment to segment profit (loss) includes corporate costs that are not allocated to any of the reportable segments. Corporate costs mainly include general and administrative expense that cannot be attributed to any of the reportable segments. The adjustment to segment profit (loss) includes inter-segment transaction elimination of 17,139 thousand yen.

3. Segment profit (loss) is adjusted with operating profit shown on the quarterly consolidated statement of income.

2. Matters related to changes in reportable segments

Beginning the first quarter of the fiscal year under review, the Midori Cloud business providing Midori Cloud and Farm Cloud that support DX of agriculture, livestock raising, and fishery using IT included in the Digital Transformation business in the past has been changed to a reportable segment and presented as such in the financial statements, taking into account the quantitative and qualitative significance of Midori Cloud in the future, after reconsidering it as a new source of business revenue in view of the future business development and management system. The reportable segments thus have changed from the conventional three, System Integration, Digital Transformation, and Mechanical Design and Engineering, to four, including System Integration, Digital Transformation, Midori Cloud, and Mechanical Design and Engineering.

The segment information for the first nine months of the previous fiscal year has been prepared and presented based on the classification of reportable segments after the change.

Material Subsequent Events

Not applicable.