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## Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 28, 2023 (Japanese GAAP)

October 14, 2022

Company name  Metareal, Inc. Listing Market TSE

Stock Code 6182 URL <https://www.metareal.jp>

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Scheduled date of filing of quarterly report: October 14, 2022 Scheduled date of commencement of dividend payment: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 28, 2023 (March 1, 2022 to August 31, 2022)

(1) Consolidated Results of Operation (Cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q2 FY2/23	2,161	5.4	241	177.2	270	150.1	109	100.2
Q2 FY2/22	2,049	5.3	87	12.2	108	241.1	54	-

(Note)

Comprehensive income Q2 FY2/23 109Millions of yen (100.2%) Q2 FY2/22 54Millions of yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q2 FY2/23	10.29	10.12
Q2 FY2/22	5.15	5.05

(Note) [Accounting Standards for Revenue Recognition] (ASBJ Statement No. 29, March 31, 2020) and other accounting standards have been applied from the beginning of the first quarter of the fiscal year under review. Figures related to the second quarter of the fiscal year ended February 28, 2023 are based on the application of these accounting standards. The rate of increase or decrease compared to the same quarter of the previous fiscal year was calculated using the figures for the second quarter of the fiscal year ended February 28, 2022 prior to the application of this accounting standard, and the figures for the second quarter of the fiscal year ended February 28, 2023 after the application of this accounting standard.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q2 FY2/23	4,667	1,213	25.1
FY2/22	4,908	1,098	21.5

(Reference)

Shareholders' equity Q2 FY2/23 1,172Millions of yen FY2/22 1,057Millions of yen

(Note) [Accounting Standards for Revenue Recognition] (ASBJ Statement No. 29, March 31, 2020) and other accounting standards have been applied from the beginning of the first quarter of the fiscal year under review. Figures related to the second quarter of the fiscal year ended February 28, 2023 are based on the application of these accounting standards.

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/22	-	0.00	-	0.00	0.00
FY2/23	-	0.00			
FY2/23 (Forecast)			-	0.00	0.00

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

Consolidated Business Forecasts for the Fiscal Year Ending February 28, 2022 (March 1, 2022 to February 28, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,299	3.4	306	233.7	-	-	-	-	-
	~5,380	~29.4	~803	~773.9					

(Note) 1. Revisions to the most recently announced business forecasts: None

◆ Consolidated Business Forecasts by Segment

(Percentages indicate year-on-year changes.)

	Net sales		Operating income	
	Millions of yen	%	Millions of yen	%
Full year				
MT business	3,074~3,674	4.8~25.2	503~913	32.3~140.0
HT business	1,191~1,550	△2.4~27.1	158~351	△12.8~92.9
Metaverse business	33~154	639.9~	△421~△315	-
Other corporate expenses	-	-	△39	-

(Note) 1. Due to the rapid growth in net sales since the fiscal year ended February 28, 2018, we have not disclosed earnings forecasts for the fiscal year ending February 28, 2019 and beyond.

In accordance with our initial policy of resuming disclosure of company forecasts when sales growth rate is below 50% (1.5 times growth), we disclosed business forecasts for the fiscal year ending February 28, 2022. However, there was a significant downturn in business performance, as a result of the need to revise business forecasts during the period.

At present, we believe that it is difficult to accurately forecast business forecasts at a fixed point, and therefore, in the fiscal year ending February 28, 2023, we will disclose business forecasts in a range that assumes multiple scenarios.

Specifically, for the MT business, certain predictions can be made for document AI translation, which has been a mainstay product for some time, while speech AI translation, which has commenced full-fledged operations since last year, is highly novel and it is difficult to predict the market size and the degree of growth. As a result, if the growth rate of speech AI translation is high, it is at the upper limit of the range, and if low, it is the lower limit.

The HT business is particularly affected by the convergence of the new coronavirus infectious disease, which is the upper limit of the range if COVID-19 pandemic converges quickly, and the lower limit if it does not converge during the current fiscal year.

In the metaverse business, there is a strong correlation with the extent to which the trends toward global progress in the technical environment (hardware and telecommunications) in the metaverse area accelerate. The faster the pace of progress, the higher limit of the range. The slower the pace, the lower limit.

It is difficult to forecast the timing of the convergence of the new coronavirus infectious disease. However, we assume that the situation regarding the new coronavirus infectious disease will continue during the fiscal year ending February 28, 2023.

- As described in (Note) 1, the consolidated business forecasts of [Ordinary income], [Net income attributable to owners of parent] and [Net income per share] for the fiscal year ending February 28, 2023 are not disclosed at this time due to the uncertainty of the business environment. In the future, if the accuracy of our forecasts increases, we will promptly disclose concrete figures.
- [Accounting Standard for Revenue Recognition] (ASBJ Statement No. 29, March 31, 2020) and other standards have been applied from the beginning of the fiscal year ended February 28, 2023. The above forecasts are based on figures after the application of these accounting standards. Year-on-year changes are calculated using the figures for the fiscal year ended February 28, 2022 prior to the application of this accounting standard, and the figures for the fiscal year ended February 28, 2023 after the application of this accounting standard.

※ Notes

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

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For details, please refer to [2.Quarterly Consolidated Financial Statements, (4) Notes on Quarterly Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)] on page 8 of the Appendix.

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

① Changes in accounting policies due to revisions of accounting standards, etc.: Yes

② ① Changes in accounting policies due to other reasons: None

③ Changes in accounting estimates: None

④ Restatements: None

(Note) For details, please refer to [2.Quarterly Consolidated Financial Statements, (4) Notes on Quarterly Consolidated Financial Statements (Changes in Accounting Policies)] on page 8 of the Appendix.

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)

Q2 FY2/23	10,688,460 shares	FY2/22	10,657,660 shares
Q2 FY2/23	468 shares	FY2/22	468 shares
Q2 FY2/23	10,679,770 shares	Q2 FY2/22	10,657,223 shares

② Treasury shares at the end of the year

③ Average number of shares outstanding during the period (cumulative)

※ This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

※ Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts regarding future performance in this material are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors. Please refer to "1. Qualitative Information on Quarterly Financial Results (4) Consolidated Business Forecasts" on page 3 of the Appendix for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Results of Operations

During the second quarter of the current fiscal year (March 1, 2022 to August 31, 2022), the MT business continued to perform strongly, but expenses such as research and development expenses were incurred in the metaverse business due to upfront investments.

As a result, our group posted net sales of 2,161,415 thousand yen (up 5.4% year on year), operating income of 241,803 thousand yen (up 177.2% year on year), ordinary income of 270,386 thousand yen (up 150.1% year on year), and profit attributable to owners of parent of 109,871 thousand yen (up 100.2% year on year) for the cumulative second quarter of the current fiscal year.

Sales from businesses other than the metaverse business were 2,157,164 thousand yen (up 5.2% year on year), and operating income was 467,799 thousand yen (up 35.8% year on year).

The performance of each business segment is as follows:

The name of the reportable segments that had been [GU business] since the third quarter of the previous fiscal year has been changed to [Metaverse business]. This change had no impact on segment information.

#### ① MT business

As for the MT business, sales were 1,470,474 thousand yen (up 1.5% year on year), due to continuous strong sales. Segment income was 324,524 thousand yen (up 19.8% year on year).

#### ② HT business

As for the HT business, sales were 686,689 thousand yen (up 14.1% year on year), and segment income was 137,879 thousand yen (up 48.6% year on year).

#### ③ Metaverse business

As for the metaverse business, sales were 4,251 thousand yen (compared to 0.1 million yen in the same period of the previous fiscal year), and segment loss was 225,995 thousand yen (compared to a segment loss of 257,169 thousand yen in the same period of the previous fiscal year).

### (2) Financial Position

#### (Assets)

Current assets decreased by 29,557 thousand yen from the end of the previous fiscal year to 2,919,136 thousand yen at the end of the second quarter of the current fiscal year. This was mainly due to a decrease of 135,349 thousand yen in notes and accounts receivable, a decrease of 33,667 thousand yen in allowance for doubtful accounts, and an increase of 11,169 thousand yen in cash and deposits. Non-current assets decreased by 211,305 thousand yen from the end of the previous fiscal year to 1,748,021 thousand yen. This was mainly due to a decrease of 46,649 thousand yen in property, plant and equipment and a decrease of 125,601 thousand yen in intangible assets.

#### (Liabilities)

Current liabilities decreased by 352,427 thousand yen from the end of the previous fiscal year to 2,082,243 thousand yen at the end of the second quarter of the current fiscal year. This was mainly due to a decrease of 283,090 thousand yen in provision for surcharge, a decrease of 100 million yen in short-term loans payable, and an increase of 60 million yen in bonds due within one year. Non-current liabilities decreased by 3,328 thousand yen from the end of the previous fiscal year to 1,371,356 thousand yen. This was mainly due to an increase of 203 million yen in bonds and a decrease of 192,990 thousand yen in long-term debt.

#### (Net assets)

Net assets increased by 114,891 thousand yen from the end of the previous fiscal year to 1,213,558 thousand yen at the end of the second quarter of the current fiscal year. This was mainly due to an increase of 109,871 thousand yen in retained earnings due to the recording of net income attributable to owners of parent.

### (3) Cash Flows

Cash and cash equivalents at the end of the second quarter of the current fiscal year increased by 15,908 thousand yen from the end of the previous fiscal year to 2,426,052 thousand yen.

The status of each cash flow during the second quarter of the current fiscal year and its factors are as follows.

#### (Cash flows from operating activities)

Net cash provided by operating activities was 147,349 thousand yen (compared to 313,528 thousand yen provided in the same period of the previous fiscal year).

This was mainly due to the recording of income before income taxes of 225,896 thousand yen, a decrease in provision for surcharges of 283,090 thousand yen, the recording of depreciation and amortization of 240,639 thousand yen, a decrease in

notes and accounts receivable-trade of 140,166 thousand yen, and income taxes paid of 97,185 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities was 84,731 thousand yen (compared to 231,563 thousand yen used in the same period of the previous fiscal year).

This was mainly due to purchase of intangible assets of 74,492 thousand yen.

(Cash flows from financing activities)

Net cash used in financing activities was 44,677 thousand yen (compared to 200,452 thousand yen used in the same period of the previous fiscal year).

This was mainly due to proceeds from issuance of bonds of 293,375 thousand yen and repayments of long-term debt of 192,990 thousand yen.

#### (4) Consolidated Business Forecasts

Our two management themes for the future are:

##### ① [Metaverser] initiative of the metaverse business

The metaverse business will strive toward the [Metaverser] initiative that has been concluded at the end of the previous two years (For details, please refer to the [Financial Results for the Fiscal Year Ended February 28, 2022 (March 2022 to May 2022)]). Previously, Travel DX Corporation, which operates the VR travel service, served as the main activity. Going forward, MATRIX Corporation, which operates [doors anywhere] as Metaverser platform, will serve as the main activity. As another new service, we will also promote the metaverse office to be sold at Rozetta Corp. and [VR clone] to meet the digital clones of celebrities and deceased persons in the virtual space.

##### ② Stable growth of the MT business

We will maintain stable growth of 5-20% per year in the MT business, which provides services such as [T-4OO] [T-3MT] for document AI translation and [ON YAKU] for speech AI translation.

The impact of COVID-19 pandemic on our business results is as follows.

In the second quarter of the fiscal year under review, there has been no significant change in corporate trends since the most recent quarter, and both the document AI automatic translation division, our core product, and the speech translation division, which is a new product, have finished in line with expectations.

From our passive style, which has relied heavily on the creation of leads through previous exhibitions, we continuously create active and active contact opportunities by making business improvements, proposing product mixes, and holding webinars to existing customers.

The document AI automatic translation division, which handles the core products [T-4OO] and [T-3MT], is trending online against the order intake plan (lower limit) that serves as the basis for the business forecasts.

Following the reaching of a certain phase of the development of the new product, the conferencing and speech translation tool [ONYAKU], we have commenced further business expansion in May. As a result, the number of inquiries and business negotiations has been on an increasing trend, and the market is gradually developing, so we will continue to work to expand orders.

We are also continuing the [Switching to the Maturity Phase] described in the Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 28, 2022, and we are working to expand usage and increase the unit price of orders by revitalizing our customers, who are currently subscribing to our contracts.

In addition, we are accelerating educational activities in the industrial translation industry to further expand the automatic translation market.

Although the impact of COVID-19 pandemic on the MT business is slight, it is possible that the impact will be significant depending on the economic stagnation caused by the expanding infectious situation in the future.

In the HT business, business performance is affected to a certain extent by trends in action restrictions associated with the expansion of the COVID-19 pandemic, etc.

In the first half of the fiscal year ended February 28, 2023, the seventh wave of the pandemic expanded and prolonged, and net sales remained at a level slightly above the same period of the previous fiscal year. In the latter half of the fiscal year, we expect both net sales and operating income to exceed the results for the same period of the previous fiscal year, assuming that the trend toward the lifting of the action restrictions will continue, despite an increase in expenses such as the upfront hiring of replacement personnel.

The impact of COVID-19 pandemic on the metaverse business is immaterial.

## 2. Quarterly Consolidated Financial Statements and Major Notes

### (1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 28, 2022)	Current second quarter (August 31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	2,396,860	2,408,030
Notes and accounts receivable	452,567	317,218
Inventories	18,467	15,974
Other	165,987	229,434
Allowance for doubtful accounts	△85,189	△51,521
Total current assets	2,948,694	2,919,136
Non-current assets		
Property, plant and equipment	208,740	162,091
Intangible assets		
Goodwill	14,496	10,603
Software	893,720	831,142
Software in progress	61,628	5,877
Other	23,511	20,132
Total intangible assets	993,356	867,754
Investments and other assets		
Investment securities	319,675	277,780
Other	437,554	440,394
Total investments and other assets	757,230	718,175
Total non-current assets	1,959,327	1,748,021
Total assets	4,908,021	4,667,158
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	94,145	96,146
Short-term borrowings	100,000	-
Current portion of long-term loans payable	385,980	385,980
Current portion of corporate bonds	74,000	134,000
Income taxes payable	91,940	83,313
Provision for bonuses	48,359	46,198
Advances received	1,006,259	1,007,352
Provision for surcharge	283,090	-
Other	350,895	329,251
Total current liabilities	2,434,670	2,082,243
Non-current liabilities		
Corporate bonds	252,000	455,000
Long-term debt	1,055,530	862,540
Other	67,155	53,816
Total non-current liabilities	1,374,685	1,371,356
Total liabilities	3,809,355	3,453,600
<b>Net assets</b>		
Shareholders' equity		
Common stock	783,511	786,021
Capital surplus	1,757,458	1,759,968
Retained earnings	△1,482,498	△1,372,627
Treasury stock	△951	△951
Total shareholders' equity	1,057,519	1,172,411
Share subscription rights	41,146	41,146
Total net assets	1,098,666	1,213,558
Total liabilities and net assets	4,908,021	4,667,158



(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income  
(Quarterly Consolidated Statements of Income)  
(For the Six-month Period)

(Thousands of yen)

	Previous second quarter (March 1, 2021) To August 31, 2021)	Current second quarter (March 1, 2022) To August 31, 2022)
Net sales	2,049,746	2,161,415
Cost of sales	711,435	782,451
Gross profit	1,338,310	1,378,963
Selling, general and administrative expenses		
Salaries, allowances and bonuses	472,900	396,581
Research and development expenses	145,460	129,315
Provision for bonuses	4,359	2,113
Retirement benefit expenses	4,974	3,564
Other	623,379	605,585
Total selling, general and administrative expenses	1,251,074	1,137,159
Operating income	87,236	241,803
Non-operating income		
Interest income	66	32
Dividends income	9	-
Foreign exchange gain	1,150	886
Subsidy income	25,102	13,049
Reversal of allowance for doubtful accounts	-	34,042
Other	10,988	989
Total non-operating income	37,317	48,999
Non-operating expenses		
Interest expenses	6,773	6,959
Share of loss of investments accounted for using equity method	7,596	5,232
Bond issuance expenses	-	6,624
Other	2,077	1,601
Total non-operating expenses	16,447	20,417
Ordinary income	108,106	270,386
Special loss		
Loss on sales and retirement of non-current assets	-	2,435
Impairment loss	※1 25,111	-
Loss on valuation of investment securities	-	※2 42,054
Total special loss	25,111	44,489
Income before income taxes	82,995	225,896
Income taxes	28,115	116,025
Net income	54,879	109,871
Net income attributable to owners of parent	54,879	109,871

(Quarterly Consolidated Statements of Comprehensive Income)  
(For the Six-month Period)

(Thousands of yen)

	Previous second quarter (March 1, 2021) To August 31, 2021)	Current second quarter (March 1, 2022) To August 31, 2022)
Net income	54,879	109,871
Comprehensive income	54,879	109,871
Comprehensive income (loss) attributable to:		
Owners of parent	54,879	109,871
Non-controlling interests	-	-

## (3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (March 1, 2021) To August 31, 2021)	Current second quarter (March 1, 2022) To August 31, 2022)
<b>Cash flows from operating activities</b>		
Income before income taxes	82,995	225,896
Depreciation	284,270	240,639
Amortization of goodwill	11,380	3,893
Impairment loss	25,111	-
Increase (decrease) in allowance for doubtful accounts	△3,004	△38,484
Increase (decrease) in accrued bonuses	△1,434	△2,160
Increase (decrease) in provision for surcharge (decrease in △)	-	△283,090
Interest and dividend income	△76	△32
Loss (gain) on equity method investments	7,596	5,232
Loss (gain) on valuation of investment-securities	-	42,054
Loss (gain) on sales and retirement of non-current assets	-	2,435
Subsidy income	△25,102	△13,049
Interest expenses	6,773	6,959
Bond issuance expenses	-	6,624
Increase (decrease) in advances received	212,845	1,027
(Increase) decrease in notes and accounts receivable- trade	19,997	140,166
(Increase) decrease in inventories (increase in △)	△4,143	2,493
Increase (decrease) in trade payables	△22,448	2,001
Increase (decrease) in accrued expenses (decrease in △)	△73,328	△40,126
Increase (decrease) in consumption tax receivable	△46,699	△48,972
Other	△77,215	△25,245
Sub-total	397,518	228,262
Interest and dividends received	76	32
Subsidy income	25,102	13,049
Interest paid	△6,773	△6,959
Income taxes paid	△105,517	△97,185
Income taxes refund	3,122	10,149
Cash flows from operating activities	313,528	147,349
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	△2,974	△929
Proceeds from sale of property, plant and equipment	-	757
Payments for intangible assets	△227,764	△74,492
Purchase of investment securities	△871	-
Purchase of investments in subsidiaries and associates	△3,500	-
Payment for loans receivable	△500	△10,850
Proceeds from loans receivable	1,356	782
Collection of lease and guarantee deposits	2,691	-
Cash flows from investing activities	△231,563	△84,731

(Thousands of yen)

	Previous second quarter (March 1, 2021) To August 31, 2021)	Current second quarter (March 1, 2022) To August 31, 2022)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings (△)	-	△100,000
Proceeds from issuance of bonds	-	293,375
Redemption of bonds	△22,000	△37,000
Proceeds from long-term debt	200,000	-
Repayment of long-term debt	△249,459	△192,990
Repayment of lease obligations	△14,960	△13,083
Proceeds from issuance of common stock upon exercise of share subscription rights	-	5,020
Dividends paid	△63,943	-
Purchase of investments in subsidiaries that does not result in change in scope of consolidation	△50,000	-
Purchase of treasury stock	△89	-
Cash flows from financing activities	△200,452	△44,677
Effect of exchange rate change on cash and cash equivalents	△382	△2,031
Net increase (decrease) in cash and cash equivalents	△118,869	15,908
Cash and cash equivalents at beginning of the year	2,288,014	2,410,143
Cash and cash equivalents at the end of the quarter	2,169,145	2,426,052

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)

Income taxes are calculated by multiplying the income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income before taxes.

However, if the calculation of tax expenses using the estimated effective tax rate yields a significantly unreasonable result, the statutory tax rate is used.

(Changes in Accounting Policies)

(Application of Accounting Standards for Revenue Recognition)

[Accounting Standard for Revenue Recognition] (ASBJ Statement No. 29, March 31, 2020). Effective from the beginning of the first quarter of the current fiscal year, the Company and its consolidated subsidiaries adopt the [Revenue Recognition Accounting Standard] to recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services transfers to customers.

With regard to the application of the Revenue Recognition Accounting Standards, etc., in accordance with the transitional treatment stipulated in the proviso in paragraph 84 of the Revenue Recognition Accounting Standards, the cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the first quarter of the current fiscal year is adjusted to retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy is applied from the beginning balance of the current fiscal year.

As a result, there is no impact on income for the second quarter of the current fiscal year. In addition, there is no impact on the beginning balance of retained earnings.

In accordance with the transitional treatment set forth in paragraph 28-15 of the [Accounting Standards for Quarterly Financial Statements] (ASBJ Statement No. 12, March 31, 2020), information on the decomposition of revenue arising from contracts with customers for the second quarter of the previous fiscal year has not been presented.

Due to the application of the Revenue Recognition Accounting Standards, etc., from the first quarter of the previous fiscal year, we have decided to include [Notes and accounts receivable] that had been presented under [Current assets] in the [Contract assets] under [Other] from the first quarter of the fiscal year under review. In accordance with the transitional treatment stipulated in paragraph 89-2 of the Revenue Recognition Accounting Standards, no reclassifications have been made for the previous fiscal year using the new presentation method.

(Additional Information)

(Application of Treatment for Application of Tax Effect Accounting for Transition from the Consolidated Tax Payment System to the Group Comprehensive Accounting System)

We and some of our domestic consolidated subsidiaries have not applied the provisions of Paragraph 44 of [Implementation Guidance on Accounting Standard for Tax Effect Accounting] (ASBJ Guidance No. 28, February 16, 2018) regarding the items for which the non-consolidated tax payment system has been revised in conjunction with the transition to a group-wide tax system and the transition to a group-wide tax system established in the [Act on Partial Amendments to the Income Tax Act] (Act No. 8 of 2020), due to the treatment of Paragraph 3 of the [Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 39, March 31, 2020), and deferred tax assets and liabilities have been based on the provisions of the tax law prior to the revision.

(Application of Accounting Standards for Calculation of Market Value)

[Accounting Standard for Calculation of Market Value] (ASBJ Statement No. 30, July 4, 2019). We have applied the [Current Value Accounting Standards] and other accounting standards from the beginning of the first quarter of the current fiscal year, and decided to apply the new accounting policies established by the Current Value Accounting Standards, etc. in the future in accordance with the transitional treatment stipulated in Article 19 of the Current Value Accounting Standards and Article 44-2 of [Accounting Standards for Financial Instruments] of ASBJ Statement No. 10 of July 4, 2019. The Company does not hold any financial instruments with a fair value on the quarterly consolidated balance sheet, and there is no impact on the quarterly consolidated financial statements.

(Accounting Estimates Associated with the Spread of Novel Coronavirus Infection)

There were no significant changes in the contents of the previous fiscal year's annual securities report during the second quarter of the current fiscal year regarding the impact of the new type of coronavirus infectious disease in our group.

(Notes to the Quarterly Consolidated Statements of Income)

※1 Impairment loss

Previous second quarter (From March 1, 2021 to August 31, 2021)

1. Amount of impairment loss

During the second quarter of the current fiscal year, our group recorded impairment loss on the following assets.

Location	Application	Type	Amount (thousands of yen)
Shinjuku-ku, Tokyo	Business assets	Software in progress	25,111

2. Method of grouping assets

Business assets are grouped on the basis of the smallest unit that generates cash flow that is largely independent of the cash flows of other assets or asset groups.

3. Background to recording impairment loss

As a result of the reassessment of profitability and the consolidation of development and operating resources for existing development projects and related businesses, we cannot expect significant future development and use of some development and operating projects. As a result, we estimated the recoverable amount to be zero in terms of both obtaining cash flow from internal use and cost reduction, and recorded an impairment loss.

Current second quarter (From March 1, 2022 to August 31, 2022)

Not applicable.

※2 Loss on valuation of investment securities

Previous second quarter (From March 1, 2021 to August 31, 2021)

Not applicable.

Current second quarter (From March 1, 2022 to August 31, 2022)

With regard to the investment securities of VoiceApp Co., Ltd. that we hold, we judge that the real value has declined significantly, and we record 42,054 thousand yen, which is the unrealized gain or loss, as a loss on valuation of investment securities under extraordinary loss.

(Segment Information)

[Segment Information]

I Previous second quarter (From March 1, 2021 to August 31, 2021)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Metaverse business	Total		
Net sales						
Net sales to unaffiliated customers	1,448,043	601,601	100	2,049,746	-	2,049,746
Intersegment sales or transfer	5,469	19,760	-	25,229	△25,229	-
Total	1,453,513	621,362	100	2,074,976	△25,229	2,049,746
Segment income or loss (△)	270,944	92,776	△257,169	106,551	△19,314	87,236

(Note) 1. Adjustments to segment income or loss (△) of 19,314 thousand yen includes eliminations of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

2. Information on impairment loss on non-current assets or goodwill by reportable segment

(Significant impairment loss on non-current assets)

During the second quarter of the fiscal year under review, intangible assets of ¥25111000 were recorded in the MT business for software under development as a result of the profitability assessment and the liquidation of projects to consolidate resources.

II Current second quarter (From March 1, 2022 to August 31, 2022)

1. Information on net sales and income (loss) by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	1,432,777	-	-	1,432,777	-	1,432,777
Human translation	14,814	686,689	-	701,504	-	701,504
metaverse	-	-	4,251	4,251	-	4,251
Consigned development	22,882	-	-	22,882	-	22,882
Revenue from contracts with customers	1,470,474	686,689	4,251	2,161,415	-	2,161,415
Revenue recognition by period						
Goods or services that are transferred at one time	124,443	619,131	4,251	747,826	-	747,826
Goods or services that are transferred over a period of time	1,346,030	67,558	-	1,413,589	-	1,413,589
Revenue from contracts with customers	1,470,474	686,689	4,251	2,161,415	-	2,161,415
Net sales to unaffiliated customers	1,470,474	686,689	4,251	2,161,415	-	2,161,415
Intersegment sales or transfer	3,023	21,621	-	24,644	△24,644	-
Total	1,473,497	708,311	4,251	2,186,060	△24,644	2,161,415
Segment income (loss)	324,524	137,879	△225,995	236,409	5,394	241,803

(Note) 1. Adjustments to segment income or loss (△) of 5,394 thousand yen include eliminations of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

2. Changes in reportable segments

(Change of Segment Name)

Effective from the third quarter of the previous fiscal year, the name of the reportable segments that had previously been the [GU business] has been changed to the [Metaverse business]. This change was made to the segment name, and this change had no impact on segment information. Segment information for the second quarter of the previous fiscal year is also presented with the new name.

(Per share Information)

Net income per share and the basis for calculating it, and diluted net income per share and the basis for calculating it are as follows.

	Previous second quarter (From March 1, 2021 to August 31, 2021)	Current second quarter (From March 1, 2022 to August 31, 2022)
(1) Net income per share	5.15 yen	10.29 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	54,879	109,871
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	54,879	109,871
Average number of shares of common stock outstanding during the period (shares)	10,657,223	10,679,770
(2) Diluted net income per share	5.05 yen	10.12 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	213,899	177,336
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect, and that had changed significantly since the end of the previous fiscal year	-	-

(Significant Subsequent Events)

Not applicable.