Summary of Consolidated Financial Results for the First Half of Fiscal Year ending December 31, 2022 (Japanese Accounting Standards)

August 5, 2022

Listed Company Name:	FUJI SOFT INCORPORATED	Listing Exchanges:	Tokyo Stock Exchange
Securities Code:	9749	URL	http://www.fsi.co.jp/
Representative:	Satoyasu Sakashita, President & Representative Director		
Contact:	Shinsuke Konishi, General Manager of Corporate Finance Department Phone: +81-45-650-8811		

Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*):	August 8, 2022
Scheduled date of dividend payment:	September 9, 2022
Supplementary documents for quarterly results:	Yes
Quarterly results briefing:	Yes

(Figures less than one million yen are omitted)

1. Consolidated Business Results for the Six Months Ended June 30, 2022 (January 1, 2022 – June 30, 2022)

(1) Consolidated operating results (cumulative total)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended 6/22	141,328	6.7	8,995	3.0	9,954	5.2	5,850	25.7
Six months ended 6/21	132,508	8.1	8,731	3.4	9,462	9.0	4,653	20.3

(Note) Comprehensive income (million yen) Six months ended 6/22: 7,459 (64.7%) Six months ended 6/21: 4,530 (3.0%)

	Net profit per share	Net profit per share/diluted
	Yen	Yen
Six months ended 6/22	186.54	186.34
Six months ended 6/21	148.66	148.54

(Note) The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other regulations, effective from beginning of the fiscal year under review and the figures for the year ended June 30, 2022 are figures after application of these regulations.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Six months ended 6/22	237,249	148,076	54.8
Year ended 12/21	228,915	142,968	54.6

Reference: Shareholders' equity (million yen) Six months ended 6/22: 130,034 Year ended 12/21: 125,047

(Note) The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other regulations, effective from beginning of the fiscal year under review and the figures for the year ended June 30, 2022 are figures after application of these regulations.

2. Dividends

	Dividend per share				
	End of first quarter	End of interim period	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended 12/21	–	26.00	–	26.00	52.00
Year ending 12/22	–	54.00			
Year ending 12/22 (forecast)			–	55.00	109.00

(Note) Revisions to dividend forecasts published most recently: No

3. Forecast for Consolidated Business Results for the Fiscal Year Ending December 31, 2022 (Jan. 1, 2022 – Dec. 31, 2022)

(Percentages represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	265,500	3.0	17,300	2.7	18,500	2.9	9,700	6.2	309.38

(Note) Revisions to forecast for consolidated business results published most recently: No

* Notes

(1) Important changes in subsidiaries during this quarter (changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable
New: — (company name)
Exception: — (company name)

(2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Yes
(Note) For details, please refer to "2. Consolidated Financial Statements and Key Notes (4) Notes to consolidated financial statements" on page 11 of the accompanying materials.

(3) Changes in accounting principles and changes or restatement of accounting estimates
(i) Changes in accounting principles due to amendment of accounting standards, etc.: Yes
(ii) Changes in accounting principles other than (i): Not applicable
(iii) Changes in accounting estimates: Not applicable
(iv) Restatement: Not applicable
(Note) For details, please refer to "2. Consolidated Financial Statements and Key Notes (4) Notes to consolidated financial statements" on page 11 of the accompanying materials.

(4) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of period (including treasury shares):	6/22:	33,700,000 shares	Year ended 12/21:	33,700,000 shares
2) Number of treasury shares at the end of period:	6/22:	2,314,358 shares	Year ended 12/21:	2,346,673 shares
3) Average number of shares during the period (quarterly consolidated cumulative period):	6/22:	31,363,695 shares	6/21:	31,302,730 shares

* Summaries of quarterly consolidated financial results are not subject to a quarterly review by a certified public accountant or an audit corporation.

* Cautionary statement with respect to forward-looking statements
The above forecast has been prepared based on data available on the announcement date. Since the data contains uncertainties, actual results may differ materially from the projections above due to changes in business performance and other factors.
For assumptions concerning financial forecasts, please refer to 1. Qualitative Information on Consolidated Results for the First Half Ended June 30, 2022, (3) Information on the future outlook, including forecast for consolidated business results on page 4 of the accompanying materials.

Accompanying Materials – Contents

1. Qualitative Information on Consolidated Results for the First Half Ended June 30, 2022

(1) Details of consolidated results

During the first half of the consolidated fiscal year under review (from January 1, 2022 to June 30, 2022), the Japanese economy continued to recover, primarily in the manufacturing industry, although it remained susceptible to the impact of COVID-19 and the supply chain disruptions linked to semiconductor shortages. Meanwhile, there are new concerns about future economic activities, such as rising interest rates associated with concerns about inflation in European countries and the United States, the weakening of the yen associated with the rising interest rates, and the escalating energy cost caused by the geopolitical issue in Ukraine.

In the information services industry, demand for system investment has remained strong because companies remain highly motivated to apply digital technologies to their operational and business reforms, such as digital transformation (DX) aimed at improving productivity and business efficiency and reforming business models, although they are required to assess the impact of rising global prices, the prolonged supply chain disruption, and other events.

In this business environment, the FUJISOFT GROUP worked to achieve sustainable growth and improve its added value by setting "Lead DX in the aspects of both IT and OT with digital technologies and contribute to value improvement and innovations by customers and society" as its three-year management policy based on the Medium-Term Management Plan (2022 to 2024) that was announced on February 10, 2022. Further, the Group also announced its DX Strategy, under which it makes comprehensive use of digital technologies to improve its competitiveness and uses the achievements from this to help customers achieve their own digitalization and increase their competitiveness. In recognition of these initiatives, in July the Company was selected by the Ministry of Economy, Trade and Industry as a DX-Certified Operator* as a leading digital company driving DX.

The Company has also been striving to transform and comprehensively optimize its organizational structure to further strengthen its business operation capabilities and prepare for continued future growth.

In operation system development in the System Construction Segment, demand remained strong mainly in the domain of system infrastructure construction realizing cloud environment and virtualization, which are essential for customers' DX, by utilizing technologies of global vendors as well, the reconstruction of backbone systems for reinforcing business foundation, and the development of service systems for the provision of new services, among other domains. Further, while DX progresses, the shift to multicloud systems which realize an optimal environment by combining multiple cloud services is prevailing. This has resulted in the ongoing stable growth centering around cloud services. For the financial service industry, the Company has engaged in aggressive sales activities in response to the demand for strategic IT investments for the promotion of DX, including efforts to increase management efficiency and to create new insurance businesses. At the same time, the Company has been providing integrated solutions, ranging from development to maintenance of existing systems, in an effort to expand the business. Further, in the distribution sector, the Company responded appropriately to customers' demand for digital transformation, such as building in-store systems and backbone systems for realizing DX in retailing, which is called New Retail.

In embedded/control system development, capital expenditures in the machine control field gathered momentum globally, or in Europe, United States and Asia including Japan in addition to China, where expenditures have been strong. Amid this trend, the Company performed strongly in the field of factory automation (FA), including machine tools and robots, and fields related to semiconductor manufacturing facilities where business is becoming more brisk. In the automotive sector, demand for software development is recovering, reflecting a significant recovery in production activities, and onboard system development, such as the development of car navigation systems, other onboard equipment, and advanced driver-assistance systems (ADAS), in which the Group has an extensive track record, remained strong. The Group is also strengthening technological and sales capabilities to surely fulfill demand mainly in the market of electrification, which is expected to expand toward the goal of achieving carbon neutrality, in its efforts to receive more orders.

In the products and services segment, sales of mobile routers and equipment expanded rapidly in the previous year, driven by rapid growth in demand for ICT equipment backed by the GIGA School Program. The demand has now subsided and remained stable. However, performance remained slightly weak as orders received decreased because CYBERNET SYSTEMS Co., Ltd., a subsidiary, terminated a sales agency contract with Synopsys, Inc.

On the other hand, the Group has been developing and selling new products, viewing the social changes associated with the significant lifestyle changes as an opportunity. In April 2022, the Group began to provide MEMTOM, an online room for business talks, and FAMevent, a virtual event space. The Group will continue to proactively solve social issues using the power of ICT, in its efforts to strengthen and expand its businesses.

The Company has established the new Corporate Value Improvement Committee as an organization that drives the improvement of the Company's value for all stakeholders by adopting advice and suggestions obtained through dialogue with many shareholders. The Company will continue to increase its corporate value by re-examining its business policy, distribution of internal resources, governance and dialogue with stakeholders.

* DX-Certified Operator: A system under which the government certifies companies that act in line with the basic items of the Digital Governance Code based on the Act on Facilitation of Information Processing. Information-technology Promotion Agency, Japan provides various consultation services, responds to inquiries, and does administrative work for certification review as the DX Certification System's administrative organization.

As a result of these initiatives, in the first half under review, net sales stood at 141,328 million yen, up 6.7% year on year, thanks to the strong performance of the System Integration business. SG&A expenses increased 5.7% year on year, to 21,363 million yen, operating profit rose 3.0% year on year, to 8,995 million yen, foreign exchange gains from the depreciation of the yen primarily resulted in year-on-year growth of ordinary profit by 5.2% to 9,954 million yen, and profit attributable to owners of parent increased 25.7% year on year, to 5,850 million yen.

Results by business segment were as follows:
(i) SI (system integration) business
In the SI business, both sales and profit from embedded/control software increased due to strong results of machine control systems and steady performance in the automotive and other sectors. In operation software, sales increased because of the favorable results for the financial sector and in the construction of system infrastructure but operating profit decreased due in part to unprofitable projects. In products and services, both sales and profit decreased, mainly reflecting a reactionary fall in sales of licenses from other companies and the Company's hardware products, which were strong in the previous fiscal year, as well as the impact of the termination of a sales agency contract at a subsidiary. In the outsourcing business, sales increased, mainly reflecting an increase in maintenance service projects, and operating profit also increased due to the increase in sales, more than offsetting temporary spending associated with the data center transfer.
As a result, net sales stood at 133,786 million yen, up 5.7% year on year. Operating profit stood at 8,226 million yen, down 0.7%.

* The following table shows a breakdown of net sales and operating profit in the SI business.

(Million yen)

	Net sales	YoY change (%)	Operating profit	YoY change (%)
SI business total	133,786	105.7	8,227	99.3
System Construction	80,260	113.4	5,141	117.9
Embedded/Control Software	36,475	110.0	3,014	135.1
Operation Software	43,785	116.4	2,127	99.8
Products and Services	53,525	95.9	3,086	78.7
Products and Services	46,015	93.9	2,549	74.5
Outsourcing	7,510	110.3	536	106.8

(Note) Operating profit includes the elimination of intersegment transactions of 1 million yen.

(ii) Facility business
In the facility business, net sales stood at 1,340 million yen, up 7.0% year on year. Operating profit stood at 373 million yen, down 8.2% year on year, due to worsening of the cost-of-sales ratio.

(iii) Other businesses
In other businesses, net sales stood at 6,201 million yen, up 33.5% year on year, mainly reflecting an increase in one-time projects of government offices and local governments in call center services and BPO services and operating profit amounted to 393 million yen, up 916.6% year on year, chiefly due to profit improvement in subsidiaries.

(2) Details of financial position

Total assets

Total assets stood at 237,249 million yen at the end of the consolidated first half under review, up 8,334 million yen from the end of the preceding consolidated fiscal year. Current assets were 114,075 million yen (up 2,947 million yen from the end of the previous fiscal year), and non-current assets were 123,173 million yen (up 5,386 million yen).

The main factor in the change in current assets was a 3,045 million yen increase in prepaid expenses from the end of the previous fiscal year, to 5,953 million yen.

The main factors of the change in non-current assets include an increase in construction in progress by 4,414 million yen from the end of the previous fiscal year, to 11,444 million yen, and an increase in buildings and structures by 1,454 million yen, to 28,620 million yen.

Liabilities

At the end of the consolidated first half under review, total liabilities amounted to 89,172 million yen, up 3,225 million yen from the end of the previous fiscal year. Current liabilities were 72,956 million yen (up 4,938 million yen from the end of the previous fiscal year), and non-current liabilities were 16,215 million yen (down 1,712 million yen).

The main factors in the change in current liabilities include a 2,615 million yen increase in advances received from the end of the previous fiscal year, to 7,906 million yen, and a 1,953 million yen increase in notes and accounts payable - trade from the end of the previous fiscal year, to 14,900 million yen.

The main factors for the change in non-current liabilities include a 1,278 million yen decrease in retirement benefit liability from the end of the previous fiscal year, to 4,503 million yen and a 358 million yen decrease in long-term borrowings from the end of the previous fiscal year, to 9,007 million yen.

Net assets

Net assets rose 5,108 million yen from the end of the preceding fiscal year, to 148,076 million yen at the end of the consolidated first half under review. As a result, the equity ratio rose to 54.8% from 54.6% at the end of the previous fiscal year.

Cash flows

Consolidated cash and cash equivalents (“cash”) at the end of the cumulative first half of the fiscal year under review were 38,568 million yen, a decrease of 2,308 million yen from the end of the previous fiscal year.

Cash flows in the cumulative first half of the fiscal year under review were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities in the cumulative first half of the fiscal year under review stood at 5,278 million yen.

This was mainly due to advance purchase of products, payment of consumption taxes and income taxes, and an increase in money received reflecting the increase in sales and profit.

(Cash flows from investment activities)

Net cash used in investing activities in the cumulative first half of the fiscal year under review came to 7,714 million yen.

This was primarily due to expenses for investment in office construction, the Company’s products, and others and payments into time deposits.

(Cash flows from financing activities)

Net cash used in financing activities in the cumulative first half of the fiscal year under review was 572 million yen.

This was mainly due to dividend payments and financing.

(3) Information on the future outlook, including forecast for consolidated business results

The full-year results forecasts remain unchanged from those announced in the financial results for the fiscal year ended December 31, 2021 announced on February 10, 2022.

The impact of COVID-19 on business results is not reflected in our forecast for consolidated business results, because it is currently difficult to determine. If a revision becomes necessary in the months ahead, we will promptly disclose it.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheet

(Million yen)

	FY2021 (As of December 31, 2021)	Q2 FY2022 (As of June 30, 2022)
Assets		
Current assets		
Cash and deposits	40,351	39,472
Notes and accounts receivable - trade	57,352	–
Notes and accounts receivable - trade, and contract assets	–	53,827
Securities	5,000	7,500
Merchandise	1,378	752
Work in process	3,034	3,472
Raw materials and supplies	37	69
Other	4,177	9,106
Allowance for doubtful accounts	-202	-124
Total current assets	111,128	114,075
Non-current assets		
Property, plant and equipment		
Buildings and structures	58,111	60,243
Accumulated depreciation	-30,945	-31,622
Buildings and structures, net	27,166	28,620
Land	53,173	53,173
Construction in progress	7,030	11,444
Other	14,274	14,757
Accumulated depreciation	-11,300	-11,860
Other, net	2,973	2,896
Total property, plant and equipment	90,344	96,135
Intangible assets		
Goodwill	385	355
Software	4,115	4,201
Other	47	45
Total intangible assets	4,547	4,601
Investments and other assets		
Investment securities	8,355	7,878
Retirement benefit asset	6,001	6,404
Deferred tax assets	2,968	3,255
Other	5,591	4,920
Allowance for doubtful accounts	-21	-23
Total investments and other assets	22,894	22,436
Total non-current assets	117,786	123,173
Total assets	228,915	237,249

(Million yen)

	FY2021 (As of December 31, 2021)	Q2 FY2022 (As of June 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	12,947	14,900
Short-term borrowings	4,738	4,635
Current portion of long-term borrowings	14,724	16,220
Accrued expenses	5,137	4,505
Income taxes payable	5,247	3,145
Provision for bonuses	6,834	6,520
Provision for bonuses for directors (and other officers)	279	174
Provision for loss on construction contracts	277	197
Provision for loss on withdrawal from business	52	38
Provision for subsidy repayment	443	484
Provision for compensation loss	–	199
Other	17,336	21,932
Total current liabilities	68,018	72,956
Non-current liabilities		
Long-term borrowings	9,366	9,007
Provision for retirement benefits for directors (and other officers)	542	320
Retirement benefit liability	5,782	4,503
Other	2,237	2,384
Total non-current liabilities	17,928	16,215
Total liabilities	85,946	89,172
Net assets		
Shareholders' equity		
Share capital	26,200	26,200
Capital surplus	28,979	29,029
Retained earnings	82,645	87,189
Treasury shares	-4,748	-4,616
Total shareholders' equity	133,076	137,803
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,709	1,365
Deferred gains or losses on hedges	-0	0
Revaluation reserve for land	-8,228	-8,228
Foreign currency translation adjustment	246	670
Remeasurements of defined benefit plans	-1,756	-1,576
Total accumulated other comprehensive income	-8,029	-7,768
Share acquisition rights	620	615
Non-controlling interests	17,300	17,426
Total net assets	142,968	148,076
Total liabilities and net assets	228,915	237,249

(2) Consolidated statements of income and consolidated statements of comprehensive income

Consolidated statements of income

Consolidated first half results

(Million yen)

	H1 FY2021 (From January 1, 2021 to June 30, 2021)	H1 FY2022 (From January 1, 2022 to June 30, 2022)
Net sales	132,508	141,328
Cost of sales	103,566	110,969
Gross profit	28,942	30,358
Selling, general and administrative expenses	20,210	21,363
Operating profit	8,731	8,995
Non-operating income		
Interest income	41	41
Dividends income	123	99
Share of profit of entities accounted for using equity method	150	9
Foreign exchange gains	365	788
Other	117	173
Total non-operating income	797	1,111
Non-operating expenses		
Interest expenses	32	24
Loss on retirement of non-current assets	18	76
Other	15	50
Total non-operating expenses	66	151
Ordinary profit	9,462	9,954
Extraordinary income		
Gain on sale of investment securities	2,759	–
Reversal of allowance for doubtful accounts	–	76
Reversal of provision for retirement benefits	–	80
Total extraordinary income	2,759	157
Extraordinary losses		
Impairment losses	468	28
Loss on sale of shares of subsidiaries and associates	2,169	–
Provision for compensation loss	–	199
Office relocation expenses	–	44
Expenses for measures against infectious diseases	36	64
Other	78	19
Total extraordinary losses	2,753	356
Profit before income taxes	9,469	9,755
Income taxes-current	3,803	2,536
Income taxes-deferred	-308	283
Total income taxes	3,494	2,819
Profit	5,974	6,935
Profit attributable to non-controlling interests	1,321	1,084
Profit attributable to owners of parent	4,653	5,850

Consolidated statements of comprehensive income
Consolidated first half results

(Million yen)

	H1 FY2021 (From January 1, 2021 to June 30, 2021)	H1 FY2022 (From January 1, 2022 to June 30, 2022)
Profit	5,974	6,935
Other comprehensive income		
Valuation difference on available-for-sale securities	-1,988	-350
Deferred gains or losses on hedges	0	-0
Foreign currency translation adjustment	304	680
Remeasurements of defined benefit plans, net of tax	152	177
Share of other comprehensive income of entities accounted for using equity method	86	17
Total other comprehensive income	-1,444	523
Comprehensive income	4,530	7,459
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	3,068	6,055
Comprehensive income attributable to non-controlling interests	1,461	1,403

(3) Consolidated cash flow statement

(Million yen)

	H1 FY2021 (From January 1, 2021 to June 30, 2021)	H1 FY2022 (From January 1, 2022 to June 30, 2022)
Cash flows from operating activities		
Profit before income taxes	9,469	9,755
Depreciation	2,852	2,373
Impairment losses	468	28
Expenses for measures against infectious diseases	36	64
Amortization of goodwill	29	29
Increase (decrease) in provision for loss on construction contracts	-74	-94
Increase (decrease) in retirement benefit liability	55	-118
Decrease (increase) in retirement benefit asset	-233	-264
Contribution of securities to retirement benefit trust	–	-1,000
Share of loss (profit) of entities accounted for using equity method	-150	-9
Interest expenses	32	24
Foreign exchange losses (gains)	-437	-727
Loss (gain) on sale of investment securities	-2,759	–
Office relocation expenses	–	44
Loss (gain) on sale of shares of subsidiaries and associates	2,169	–
Loss on retirement of non-current assets	67	–
Decrease (increase) in trade receivables	1,151	2,738
Decrease (increase) in inventories	722	159
Increase (decrease) in trade payables	1,438	2,119
Decrease (increase) in prepaid expenses	-1,069	-2,959
Increase (decrease) in accrued consumption taxes	-1,655	-2,167
Increase (decrease) in accounts payable - other	278	135
Increase (decrease) in accounts payable - personnel expenses	-434	-462
Decrease (increase) in long-term prepaid expenses	517	580
Increase (decrease) in provision for loss on business liquidation	11	–
Other	-393	-432
Subtotal	12,094	9,818
Interest and dividends income received	166	142
Interest paid	-35	-25
Income taxes paid	-2,604	-4,582
Payments for loss on withdrawal from business	–	-14
Expenses for measures against infectious diseases paid	-32	-60
Net cash provided by (used in) operating activities	9,589	5,278

(Million yen)

	H1 FY2021 (From January 1, 2021 to June 30, 2021)	H1 FY2022 (From January 1, 2022 to June 30, 2022)
Cash flows from investing activities		
Payments into time deposits	-6,449	-3,042
Proceeds from withdrawal of time deposits	9,304	802
Purchase of property, plant and equipment	-802	-3,211
Purchase of intangible assets	-2,137	-1,395
Purchase of securities	–	-1,000
Proceeds from sale of investment securities	3,891	–
Proceeds from sale of shares of subsidiaries and associates	4,330	–
Other	132	132
Net cash provided by (used in) investing activities	8,269	-7,714
Cash flows from financing activities		
Purchase of treasury shares of subsidiaries	–	-361
Proceeds from short-term borrowings	5,832	4,993
Repayments of short-term borrowings	-21,580	-5,099
Proceeds from long-term borrowings	3,500	5,000
Repayments of long-term borrowings	-583	-3,862
Repayments to non-controlling shareholders	—	-121
Dividends paid	-720	-814
Dividends paid to non-controlling interests	-392	-453
Proceeds from exercise of employee share options	205	145
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	-0	-4
Other	-16	6
Net cash provided by (used in) financing activities	-13,755	-572
Effect of exchange rate change on cash and cash equivalents	348	700
Net increase (decrease) in cash and cash equivalents	4,452	-2,308
Cash and cash equivalents at beginning of period	37,450	40,876
Cash and cash equivalents at end of period	41,902	38,568

(4) Notes to consolidated financial statements
(Note on going concern assumptions)
Not applicable.

(Note when there is a considerable change in the amount of shareholders' equity)
Not applicable.

(Important changes in subsidiaries during this quarter)
Not applicable.

(Application of specific accounting treatment to the preparation of quarterly consolidated financial statements)
(Calculation of tax expense)
Certain consolidated subsidiaries make a reasonable estimate of the effective tax rate after the application of tax effect accounting to income before income taxes for the current fiscal year including second quarter under review and multiply quarterly income before income taxes by the estimated effective tax rate.

(Changes in accounting principles)
(Adoption of the Accounting Standard for Revenue Recognition and Other Regulations)
The Company started to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Revenue Recognition Accounting Standard") and other regulations at the beginning of the first quarter of the fiscal year under review. Accordingly, it recognized revenue in the amount expected to be received in exchange for promised goods and services at points where control over such goods or services is transferred to customers.
Major changes attributable to the application of the Revenue Recognition Accounting Standard, etc. are as follows.

(1) Revenue recognition for principal and agent transactions
For some transactions in the SI business, revenue was previously recognized based on the total amount of consideration. However, for transactions in which the Group acts as an agent in the provision of goods or services for customers, revenue is now recognized in net value.

(2) Performance obligations satisfied over time
- Regarding contracted software development, the Group previously applied the percentage-of-completion method to contracts in which the reliability of results for progressed portions was recognized (with the progress of work estimated based on cost-to-cost method), while applying the completed-contract method to others. In the consolidated first quarter of the fiscal year under review, this practice was replaced with a method with which, where the control over goods or services is transferred to the customer over a specific period, sales are posted over a specific period according to progress in the satisfaction of the performance obligation to transfer the goods or services to the customer, except in cases where the period from the contract start date to the expected time of complete fulfillment of the performance obligation under the contract is extremely short.
- Concerning services provided under quasi-mandate contracts without the obligation to deliver a deliverable, the Group previously posted sales when service provision was completed. In the consolidated first quarter of the fiscal year under review, this practice was replaced with a method with which, where the control over goods or services is transferred to the customer over a specific period, sales are posted over a specific period according to progress in the satisfaction of the performance obligation to transfer the goods or services to the customer, except in cases where the period from the contract start date to the expected time of complete fulfillment of the performance obligation under the contract is extremely short.
- Regarding software maintenance services provided by some consolidated subsidiaries, revenue was previously recognized primarily at the contract start time. In the consolidated first quarter of the fiscal year under review, this method was replaced with one under which revenue is recognized over the contract period.

(3) Allocation of transaction price
Some consolidated subsidiaries have switched to a method with which, in a single contract involving licensing and maintenance service, a performance obligation is identified for the licensing and maintenance service, respectively, and the transaction price is allocated to each performance obligation proportionately based on the standalone selling price determined for each.

The Revenue Recognition Accounting Standard is applied according to the provisional measures stipulated in the proviso in

Paragraph 84 of the standard. With respect to the application of a new accounting policy, it is applied to the balance of retained surplus at the beginning of the first quarter of the fiscal year under review. This balance of retained surplus is obtained through calculation using the cumulative amount of the impact from retrospective application of the new accounting policy to periods prior to the beginning of the first quarter, either by adding it to or deducting it from the retained surplus.

As a result, net sales for the first half of the fiscal year under review decreased by 618 million yen, cost of sales decreased by 320 million yen, and operating profit, ordinary profit and profit before income taxes all decreased by 297 million yen, respectively. The balance of retained earnings at the beginning of the period under review decreased 493 million yen, and non-controlling interests fell 413 million 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 of the fiscal year 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 decomposes revenue from contracts with customers for the first half 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, July 4, 2019), etc. and the implementation guidance on the Accounting Standard for Fair Value Measurement from the first quarter of the fiscal year under review. Accordingly, the Company will apply the new accounting policies prescribed in the Accounting Standard for Fair Value Measurement, etc. in the future in accordance with transitional measures stipulated in Paragraph 19 of the standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Abolition of the officer retirement benefit system)

At the Annual General Meeting of Shareholders held on March 11, 2022, the Company passed a resolution to pay retirement benefits for termination to directors and auditors following the abolition of the officer retirement benefit system.

As such, in the consolidated first quarter of the fiscal year under review, the Company reversed 218 million yen from the "Provision for directors' retirement benefits" and included the amount due for the consolidated fiscal year under review in "Other" under "Non-current liabilities" as long-term accounts payable.

Some consolidated subsidiaries continue to prepare for payment of officer retirement benefits, and for this purpose, posted the total amount that needs to be paid at the end of the fiscal year under review in accordance with the internal regulations as "Provision for directors' retirement benefits."

(Segment information)

[Segment information]

I. H1 FY2021 (From January 1, 2021 to June 30, 2021)

1. Information on sales and profit and loss by reported segment

(Million yen)

	Reported segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount on first-half consolidated statement of income (Note 3)
	SI business	Facility business	Total				
Net sales							
Sales to outside customers	126,612	1,252	127,864	4,644	132,508	–	132,508
Inter-segment sales or transfers	22	371	394	333	727	-727	–
Total	126,635	1,623	128,258	4,977	133,236	-727	132,508
Segment profit	8,284	406	8,691	38	8,730	1	8,731

Notes:

1. "Others" is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 1 million yen includes an elimination of inter-segment transactions of 1 million yen.

3. The segment profit has been adjusted to the operating profit stated in the consolidated income statement.

2. Information on impairment loss in non-current assets and goodwill by reported segment

The presentation of information has been omitted due to its lack of material significance.

II. H1 FY2022 (From January 1, 2022 to June 30, 2022)

1. Net sales and profit (loss) for each reported segment and the breakdown of revenue

(Million yen)

	Reported segments			Others (Note 1)	Total	Adjustment (Note 2)	Amount on first-half consolidated statement of income (Note 3)
	SI business	Facility business	Total				
Net sales							
Goods transferred at a point in time	110,057	224	110,281	824	111,106	–	111,106
Goods transferred over time	23,728	–	23,728	5,372	29,101	–	29,101
Revenue from contracts with customers	133,786	224	134,010	6,196	140,207	–	140,207
Other revenue (Note 4)	0	1,115	1,115	4	1,120	–	1,120
Sales to outside customers	133,786	1,340	135,126	6,201	141,328	–	141,328
Inter-segment sales or transfers	46	265	312	333	645	-645	–
Total	133,833	1,605	135,438	6,534	141,973	-645	141,328
Segment profit	8,226	373	8,599	393	8,993	1	8,995

Notes:

1. "Others" is a business segment that is not included in the reported segments and includes the data entry business, contact center business, and tissue engineering business, etc.
2. An adjustment of segment profit of 1 million yen includes an elimination of inter-segment transactions of 1 million yen.
3. The segment profit has been adjusted to the operating profit stated in the consolidated income statement.
4. The main components of other revenue include income from lease based on the Accounting Standard for Lease Transactions (ASBJ Statement No. 13).

2. Information on impairment loss in non-current assets and goodwill by reported segment

The presentation of information has been omitted due to its lack of material significance.

3. Information on changes in reportable segments

As stated in "Changes in accounting principles," the Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other regulations, effective from beginning of the consolidated first quarter of the fiscal year under review and changed the accounting method for revenue recognition. Therefore, the method of measuring the profit or loss of reported segments has also been changed in the same way.

As a result of this change, net sales and segment profit in the SI business for the consolidated first half under review decreased 613 million yen and 292 million yen, respectively, and net sales and segment profit in "Others" decreased 5 million yen each, compared to the previous method.

In accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue from contracts with customers for the first half of the previous fiscal year is not stated.