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Consolidated Financial Results for the Second Quarter (Interim Period) of the Fiscal Year Ending February 28, 2025 (Japanese GAAP)

October 15, 2024

Company name  MetaReal Corp. Listing Market TSE

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

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Scheduled date of filing of semi-annual report October 15, 2024 Scheduled date of commencement of dividend payment -

Preparation of supplementary materials for financial results: Yes

Holding of financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter (Interim Period) of the Fiscal Year Ending February 28, 2025 (March 1 to August 31, 2024)

(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	%
H1 FY2/25	2,124	0.6	291	△25.4	282	△32.7	198	△14.6
H1 FY2/24	2,112	△2.3	390	61.5	419	55.3	232	111.9

(Note) Comprehensive income H1 FY2/25 197 Millions of yen (△15.1%) H1 FY2/24 232 Millions of yen (111.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
H1 FY2/25	18.43	18.29
H1 FY2/24	21.78	21.42

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
H1 FY2/25	5,225	1,857	35.5
FY2/24	4,458	1,681	36.8

(Reference) Shareholders' equity H1 FY2/25 1,857 Millions of yen FY2/24 1,640 Millions of yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/24	-	0.00	-	0.00	0.00
FY2/25	-	0.00			
FY2/25 (Forecast)			-	0.00	0.00

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

3. Consolidated Business Forecasts for the Fiscal Year Ending February 28, 2025 (March 1, 2024 to February 28, 2025)

(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	4,640	11.1	412	△44.8	-	-	-	-	-

(Note) 1. Revisions to the most recently announced business forecasts: Yes

2. For details on revisions to the consolidated business forecasts, please refer to the [Notice Regarding Revisions to Consolidated Business Forecasts] announced on October 15, 2024.

3. [Ordinary income], [Net income attributable to owners of the parent] and [Net income per share] in the consolidated business forecasts for the fiscal year ending February 28, 2025 are not disclosed at this time because, although uncertainty in financial plans such as fund-raising in terms of both liabilities and equity due to Metareal AI of new businesses has been mitigated, they include items with high forecasting difficulties such as non-operating income (loss) and extraordinary income (loss). We plan to disclose specific figures promptly once we are able to make more accurate projections.

◆ Consolidated Business Forecasts by Segment

(Percentages indicate year-on-year changes.)

	Net sales		Operating income	
	Millions of yen	%	Millions of yen	%
Full year				
AI business	3,430	12.2	670	△28.4
HT business	1,010	△9.6	120	△17.6
Metaverse business	200	-	△200	-
Other corporate expenses	-	-	△177	-

(Note) Metareal AI related sales projects, which are future growth strategies include consigned development-type projects, performance-based quasi-delegation, and licensing as usage rights. The recording of sales varies greatly depending on the delivery of products, the timing of acceptance inspections, and the timing of licensing (and various conditions in licensing). Accordingly, there is a difference in the recording of sales between quarters. Our annual business forecasts are based on the difference between the levels of each fiscal year and each quarter, and there is a possibility that there will be changes in the timing of recording before or after the quarter due to differences in the timing of acceptance inspections.

※ Notes

(1) Significant changes in scope of consolidation during the period: None

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

(Note) For details, please refer to [2. Interim Consolidated Financial Statements and Major Notes, (4) Notes on Interim Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Interim Consolidated Financial Statements)] on page 9 of the Appendix.

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

① Changes in accounting policies due to revision of accounting standards, etc.: None

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: None

④ Restatements: None

(4) Number of shares outstanding (common stock)

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

② Treasury shares at the end of the year

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

H1 FY2/25	10,888,060 shares	FY2/24	10,768,460 shares
H1 FY2/25	490 shares	FY2/24	490 shares
H1 FY2/25	10,795,917 shares	H1 FY2/24	10,689,592 shares

※ This consolidated financial report for the second quarter (interim period) is not subject to 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 of future performance and other forward-looking statements in this document 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 makes no promises concerning their achievement. Actual results may differ significantly from the forecasts due to various factors. Please refer to [1. Overview of Results of Operation, (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. Results of Operations and Financial Position

(1) Overview of Results of Operation for the Period under Review

During the interim fiscal year under review (March 1 to August 31, 2024), despite a decrease in orders received and operating income in the AI business, net sales hit record highs. In the HT business, income compared to the same period of the previous fiscal year decreased, but the amount of loss incurred in the Metaverse business decreased.

As a result, our group posted net sales of 2,124,642 thousand yen (up 0.6% year on year), operating income of 291,507 thousand yen (down 25.4% year on year), ordinary income of 282,507 thousand yen (down 32.7% year on year), and profit attributable to owners of parent of 198,940 thousand yen (down 14.6% year on year) for the interim period.

The performance of each business segment is as follows:

Since the previous fiscal year, we have changed the method of measuring income or loss of business segments in order to more appropriately evaluate the results of operations by reportable segment. Comparisons and analyses during the period under review are based on the new measurement method.

① AI business

As for the AI business, orders received were 1,624,839 thousand yen (down 3.1% year on year). Sales were 1,661,660 thousand yen (up 6.9% year on year) due to the impact of consigned projects and other factors. Segment income was 451,391 thousand yen (down 7.4% year on year) due to the impact of upfront spending on the new [Metareal AI] business. As for the [Metareal AI] project, which was developed and provided in the fiscal year ended February 28, 2024 as a growth measure in the short to medium term, we aim to contribute to results at an early stage. We have started various proposals and sales using generative AI, mainly for major customers, which has led to large-scale orders.

② HT business

As for the HT business, sales were 462,312 thousand yen (down 16.8% year on year), and segment income was 38,088 thousand yen (down 47.1% year on year).

③ Metaverse business

We shifted our short- to medium-term growth measures to the [Metareal AI] project and reduced the amount of investment in the Metaverse business from a long-term perspective of 10 ± 5 years. As a result, sales were 669 thousand yen (down 68.7% year on year), and segment loss was 97,173 thousand yen (segment loss of 118,708 thousand yen in the same period of the previous fiscal year).

(2) Overview of Financial Position for the Period under Review

(Assets)

Current assets increased by 637,307 thousand yen from the end of the previous fiscal year to 4,165,449 thousand yen at the end of the interim consolidated fiscal year under review. This was due mainly to an increase of 541,610 thousand yen in cash and deposits and an increase of 180,897 thousand yen in notes receivable, accounts receivable and contract assets. Non-current assets increased by 129,861 thousand yen from the end of the previous fiscal year to 1,059,761 thousand yen. This was due mainly to an increase of 172,490 thousand yen in property, plant and equipment and a decrease of 38,972 thousand yen in intangible assets.

(Liabilities)

Current liabilities increased by 455,803 thousand yen from the end of the previous fiscal year to 2,461,755 thousand yen at the end of the interim consolidated fiscal year under review. This was due mainly to a decrease of 100,000 thousand yen in short-term loans payable, an increase of 87,980 thousand yen in advances received, and an increase of 70,199 thousand yen in income taxes payable. Non-current liabilities increased by 135,339 thousand yen from the end of the previous fiscal year to 905,958 thousand yen. This was due mainly to an increase of 110,360 thousand yen in long-term debt and an increase of 38,000 thousand yen in bonds.

(Net assets)

Net assets increased by 176,025 thousand yen from the end of the previous fiscal year to 1,857,496 thousand yen at the end of the interim consolidated fiscal year under review. This was due mainly to an increase of 198,940 thousand yen in retained earnings as a result of recording profit attributable to owners of the parent.

(3) Overview of Cash Flows for the Period under Review

Cash and cash equivalents at the end of the interim fiscal year under review increased by 541,483 thousand yen from the end of the previous fiscal year to 3,619,948 thousand yen.

The status of each type of cash flow and related factors in the current interim consolidated accounting period are reviewed below.

(Cash flows from operating activities)

Net cash provided by operating activities was 639,464 thousand yen (compared to 501,785 thousand yen provided in the same period of the previous fiscal year).

This was due mainly to the recording of income before income taxes of 334,891 thousand yen, an increase in accounts payable-other of 274,707 thousand yen, an increase in notes and accounts receivable-trade and contract assets of 171,710 thousand yen, the recording of depreciation and amortization of 125,214 thousand yen, and an increase in advances received of 87,980 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities was 247,838 thousand yen (compared to 52,606 thousand yen used in the same period of the previous fiscal year).

This was due mainly to purchase of property, plant and equipment of 193,864 thousand yen and purchase of intangible assets of 76,096 thousand yen.

(Cash flows from financing activities)

Net cash provided by financing activities was 149,712 thousand yen (compared to 69,419 thousand yen used in the same period of the previous fiscal year).

This was due mainly to proceeds of 350,000 thousand yen from long-term debt and repayment of 172,996 thousand yen in long-term debt.

(4) Consolidated Business Forecasts

Our two management themes for the future are:

① Expansion of the business base for AI translation targeting specialized industry documents to the generative AI business

By utilizing specialized document data such as [T-400] that has been highly valued by customers as an AI translation for [specialized documents for specific industries] and a customer base of more than 6000 companies, we will expand the scope from the narrow domain of translation to the entire process of document preparation, while narrowly focusing on [specialized documents for specific industries]. Through consigned development, joint development, and SaaS products, we resolve issues such as the speed and artificial number of issues related to the preparation of specialized documents that our customers face.

As a result of the trial and error of various AI solution products and services last year, as in the case of AI translation, we have been confident that we will be successful in concentrating and selecting [specialized documents for specific industries], which is where demand is certain and we have a competitive edge. As a result, our management policy for this fiscal year is to switch from maximizing profits to accelerating growth, make decisive upfront investments to expand sales of the AI business, and aim for sales of 9 billion yen (consolidated sales of 10 billion yen) three years from now (the fiscal year ending February 28, 2027).

② Commencement of provision of outsourced development solutions utilizing AI technology that automatically generates digital twins in the Metaverse business

In the Metaverse business, as a long-term growth strategy. envisaging the prospects of 10 ±5 years from now, we are tackling the task of the [Metaverser] concept and [MetaversexAI] as a means of doing so. In particular, from this fiscal year we will focus on starting to provide outsourced development solutions using AI technologies that automatically generate digital twins.

Previous methods of digital twin-building included [3D Laser Scan] and [Combination of Plane Capture Images], but there were issues such as trouble and cost in the former and limitations in viewpoints and perspectives in the latter. Accordingly, we will provide outsourced AI-development solutions that automatically generate photo digital twins from videos taken on a smartphone without the need for special equipment or tasks by using the next-generation 3D spatial configuration technique [Gaussian Splatting]. Use cases are assumed for industries centered on the construction, real estate, and manufacturing industries.

2. Interim Consolidated Financial Statements and Major Notes

(1) Interim consolidated balance sheet

(Thousands of yen)

	Previous fiscal year (February 29, 2024)	Current interim consolidated accounting period (August 31, 2024)
Assets		
Current assets		
Cash and deposits	3,077,184	3,618,795
Notes, accounts receivable and contract assets	210,127	391,025
Inventories	18,100	21,761
Other	229,434	141,691
Allowance for doubtful accounts	△6,705	△7,823
Total current assets	3,528,142	4,165,449
Non-current assets		
Property, plant and equipment	60,997	233,487
Intangible assets		
Software	419,465	379,673
Software in progress	2,837	7,031
Other	10,090	6,715
Total intangible assets	432,393	393,421
Investments and other assets		
Investment securities	142,542	140,867
Other	327,232	316,064
Allowance for doubtful accounts	△33,266	△24,079
Total investments and other assets	436,508	432,852
Total non-current assets	929,899	1,059,761
Total assets	4,458,042	5,225,210
Liabilities		
Current liabilities		
Notes and accounts payable-trade	65,323	53,979
Short-term borrowings	100,000	-
Current portion of long-term loans payable	400,980	467,624
Current portion of corporate bonds	164,000	194,000
Income taxes payable	88,954	159,154
Provision for bonuses	45,632	47,359
Advances received	814,062	902,043
Other	326,998	637,594
Total current liabilities	2,005,951	2,461,755
Non-current liabilities		
Corporate bonds	359,000	397,000
Long-term debt	398,570	508,930
Other	13,049	28
Total non-current liabilities	770,619	905,958
Total liabilities	2,776,571	3,367,714
Net assets		
Shareholders' equity		
Common stock	792,541	802,289
Capital surplus	1,766,488	1,776,235
Retained earnings	△918,731	△719,790
Treasury stock	△986	△986
Total shareholders' equity	1,639,312	1,857,747
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,011	△251
Total accumulated other comprehensive income	1,011	△251
Share subscription rights	41,146	-
Total net assets	1,681,470	1,857,496
Total liabilities and net assets	4,458,042	5,225,210

(2) Interim Consolidated Statements of Income and Interim Consolidated Statements of Comprehensive Income
(Interim Consolidated Statements of Income)
(Interim Consolidated Accounting Period)

(Thousands of yen)

	Previous interim consolidated accounting period (From March 1, 2023 to August 31, 2023)	Current interim consolidated accounting period (From March 1, 2024 to August 31, 2024)
Net sales	2,112,250	2,124,642
Cost of sales	658,767	655,882
Gross profit	1,453,483	1,468,759
Selling, general and administrative expenses		
Salaries, allowances and bonuses	378,257	384,160
Research and development expenses	73,063	95,450
Provision for bonuses	147	3,372
Retirement benefit expenses	3,656	3,563
Other	607,780	690,705
Total selling, general and administrative expenses	1,062,904	1,177,252
Operating income	390,578	291,507
Non-operating income		
Interest income	35	247
Foreign exchange gain	1,347	-
Subsidy income	16	-
Gain on forgiveness of dividends payable	-	203
Reversal of allowance for doubtful accounts	46,455	-
Cash-back income	283	184
Other	1,550	388
Total non-operating income	49,688	1,024
Non-operating expenses		
Interest expenses	5,322	4,225
Share of loss of investments accounted for using equity method	10,829	1,648
Bond issuance expenses	3,088	3,463
Foreign exchange loss	-	324
Other	1,154	362
Total non-operating expenses	20,395	10,024
Ordinary income	419,871	282,507
Special income		
Income on sales of non-current assets	831	2,466
Gain on sale of investment securities	-	19,999
Gain on reversal of share subscription rights	-	41,146
Total special income	831	63,613
Special loss		
Loss on sales and retirement of noncurrent assets	-	930
Impairment loss	2,826	10,297
Total special loss	2,826	11,228
Income before income taxes	417,877	334,891
Income taxes	185,018	135,951
Interim net income	232,859	198,940
Net income attributable to owners of parent	232,859	198,940

(Interim Consolidated Statements of Comprehensive Income)
(Interim Consolidated Accounting Period)

(Thousands of yen)

	Previous interim consolidated accounting period (From March 1, 2023 to August 31, 2023)	Current interim consolidated accounting period (From March 1, 2024 to August 31, 2024)
Interim net income	232,859	198,940
Other comprehensive income		
Valuation difference on available-for-sale securities	-	△1,262
Total other comprehensive income	-	△1,262
Comprehensive income	232,859	197,677
Comprehensive income (loss) attributable to:		
Owners of the parent company	232,859	197,677
Non-controlling interests	-	-

(3) Interim consolidated statements of cash flows

(Thousands of yen)

	Previous interim consolidated accounting period (From March 1, 2023 to August 31, 2023)	Current interim consolidated accounting period (From March 1, 2024 to August 31, 2024)
Cash flows from operating activities		
Income before income taxes	417,877	334,891
Depreciation	195,719	125,214
Amortization of goodwill	3,354	-
Impairment loss	2,826	10,297
Increase or decrease in allowance for doubtful accounts (Δ indicates decrease)	Δ 54,601	Δ 8,069
Increase or decrease in accrued bonuses (Δ indicates decrease)	Δ 2,717	1,727
Interest and dividend income	Δ 35	Δ 247
Loss or gain on equity method investments (Δ indicates gain)	10,829	1,648
Loss on sales and retirement of noncurrent assets (Δ indicates gain)	Δ 831	Δ 1,535
Subsidy income	Δ 16	-
Loss or gain on sales of investment securities (Δ indicates gain)	-	Δ 19,999
Gain on reversal of share subscription rights	-	Δ 41,146
Interest expenses	5,322	4,225
Bond issuance expenses	3,088	3,463
Increase or decrease in advances received (Δ indicates decrease)	115,071	87,980
Increase or decrease in notes and accounts receivable and contract assets (Δ indicates increase)	Δ 59,118	Δ 171,710
Increase or decrease in inventories (Δ indicates increase)	Δ 7,441	Δ 3,660
Increase or decrease in trade payables (Δ indicates decrease)	Δ 5,807	Δ 11,344
Increase or decrease in accounts payable-other (Δ indicates decrease)	Δ 3,441	274,707
Increase or decrease in accrued expenses (Δ indicates decrease)	6,234	80,090
Increase or decrease in accrued consumption taxes	2,265	Δ 47,972
Other	Δ 12,706	18,647
Sub-total	615,872	637,207
Interest and dividends received	35	247
Subsidy income	16	-
Interest paid	Δ 5,322	Δ 4,225
Income taxes paid	Δ 167,721	Δ 79,360
Income taxes refund	58,905	85,594
Cash flows from operating activities	501,785	639,464
Cash flows from investing activities		
Payments for property, plant and equipment	Δ 3,860	Δ 193,864
Proceeds from sale of property, plant and equipment	831	2,066
Payments for intangible assets	Δ 50,008	Δ 76,096
Proceeds from sale of intangible assets	-	400
Proceeds from sales of investment securities	-	20,000
Payment for loans receivable	Δ 700	Δ 708
Proceeds from loans receivable	1,130	364
Cash flows from investing activities	Δ 52,606	Δ 247,838
Cash flows from financing activities		
Increase in short-term borrowings (Δ indicates decrease)	Δ 100,000	Δ 100,000
Proceeds from issuance of bonds	146,911	146,536
Redemption of bonds	Δ 67,000	Δ 82,000
Proceeds from long-term debt	150,000	350,000
Repayment of long-term debt	Δ 197,990	Δ 172,996
Repayment of lease obligations	Δ 13,338	Δ 11,322
Proceeds from issuance of common stock upon exercise of share subscription rights	11,996	19,494
Purchase of investments in subsidiaries that does not result in change in scope of consolidation	-	Δ 0
Cash flows from financing activities	Δ 69,419	149,712

Effect of exchange rate change on cash and cash equivalents	△931	144
Net increase or decrease in cash and cash equivalents (△ indicates decrease)	378,827	541,483
Cash and cash equivalents at beginning of the year	2,542,027	3,078,464
Cash and cash equivalents at the end of the period	2,920,855	3,619,948

(4) Notes on Interim Consolidated Financial Statements

(Application of Accounting Procedures Specific to Preparation of Interim 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 highly unreasonable result, then the statutory tax rate is used.

(Notes on Segment Information)

[Segment Information]

I Previous interim accounting period (From March 1, 2023 to August 31, 2023)

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

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated statements of income (Note 2)
	AI business (Note 3)	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	1,386,851	16,281	-	1,403,133	-	1,403,133
Human translation	26,547	539,211	-	565,759	-	565,759
Metaverse	-	-	2,139	2,139	-	2,139
Consigned development	141,218	-	-	141,218	-	141,218
Revenue from contracts with customers	1,554,617	555,493	2,139	2,112,250	-	2,112,250
Revenue recognition by period						
Goods or services that are transferred at one time	124,658	485,654	1,111	611,424	-	611,424
Goods or services that are transferred over a period of time	1,429,958	69,838	1,028	1,500,825	-	1,500,825
Revenue from contracts with customers	1,554,617	555,493	2,139	2,112,250	-	2,112,250
Net sales to unaffiliated customers	1,554,617	555,493	2,139	2,112,250	-	2,112,250
Intersegment sales or transfer	3,209	24,839	39	28,088	△28,088	-
Total	1,557,827	580,332	2,178	2,140,338	△28,088	2,112,250
Segment income or loss (△)	487,550	71,945	△118,708	440,787	△50,208	390,578

(Note) 1. Adjustments to segment income or loss (△) of △50,208 thousand yen includes an elimination of intersegment transactions of 120,373 thousand yen and a corporate expenses not attributable to reportable segments of △170,582 thousand yen.

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 interim consolidated statements of income.

3. Sales related to generative AI are included in [Machine translation] for platform-type sales, and sales related to consigned development are included in [Consigned development].

2. Information on impairment loss on noncurrent assets or goodwill by reportable segment

(Significant impairment loss on noncurrent assets)

This information is omitted because it is not material.

II Current interim accounting period (From March 1, 2024 to August 31, 2024)

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

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1):	Amounts on the consolidated statements of income (Note 2)
	AI business (Note 3)	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	1,354,145	13,125	-	1,367,271	-	1,367,271
Human translation	32,544	449,186	-	481,731	-	481,731
Metaverse	-	-	669	669	-	669
Consigned development	274,970	-	-	274,970	-	274,970
Revenue from contracts with customers	1,661,660	462,312	669	2,124,642	-	2,124,642
Revenue recognition by period						
Goods or services that are transferred at one time	259,542	400,570	103	660,215	-	660,215
Goods or services that are transferred over a period of time	1,402,118	61,741	566	1,464,426	-	1,464,426
Revenue from contracts with customers	1,661,660	462,312	669	2,124,642	-	2,124,642
Net sales to unaffiliated customers	1,661,660	462,312	669	2,124,642	-	2,124,642
Intersegment sales or transfer	2,299	35,110	8,344	45,754	△45,754	-
Total	1,663,960	497,422	9,013	2,170,396	△45,754	2,124,642
Segment income or loss (△)	451,391	38,088	△97,173	392,305	△100,798	291,507

(Note) 1. Adjustments to segment income or loss (△) of △100,798 thousand yen includes an elimination of intersegment transactions of 120,415 thousand yen and a corporate expenses not attributable to reportable segments of △221,213 thousand yen.

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 interim consolidated statements of income.

3. Sales related to generative AI are included in [Machine translation] for platform-type sales, and sales related to consigned development are included in [Consigned development].

2. Information on impairment loss on noncurrent assets or goodwill by reportable segment

(Significant impairment loss on noncurrent assets)

This information is omitted because it is not material.

3. Changes in reportable segments

(Changes in Measurement Methods of Income or Loss of Business Segments)

In order to more appropriately evaluate the results of operations of each reportable segment, we have decided to revise the allocation of expenses in the headquarters function in response to the increasing importance of company-wide management amid changes in the Group's business expansion and other developments in recent years.

Accordingly, the effect of cost reduction activities undertaken by the administrative division at headquarters was included in adjustments to segment income. However, from the previous fiscal year, we have changed the allocation method in light of the ratio of services provided to each company from the administrative division at headquarters.

Segment information for the previous interim fiscal year is prepared based on the new measurement method for reportable segment income or loss.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on the Interim Consolidated Statements of Income)

(Gain on sales of investment securities)

Previous interim accounting period (From March 1, 2023 to August 31, 2023)

Not applicable.

Current interim accounting period (From March 1, 2024 to August 31, 2024)

This was due to the sale of one share subscription right (VoiceApp, Inc.) of a domestic unlisted company, out of the investment securities we hold.

(Per share Information)

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

	Previous interim consolidated accounting period (From March 1, 2023 to August 31, 2023)	Current interim consolidated accounting period (From March 1, 2024 to August 31, 2024)
(1) Net income per share	21.78 yen	18.43 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	232,859	198,940
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	232,859	198,940
Average number of shares of common stock outstanding during the period (shares)	10,689,592	10,795,917
(2) Diluted net income per share	21.42 yen	18.29 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	179,505	80,733
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	-	The 14th share subscription rights by resolution of the Board of Directors at the meeting held on July 14, 2020 have expired due to the expiration of the rights. Number of share subscription rights: 12,188 (1,218,800 shares of common stock)